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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED LOAN

IN THE AMOUNT OF US$200 MILLION

TO

THE KINGDOM OF MOROCCO

FOR THE

SECOND ECONOMIC COMPETITIVENESS SUPPORT PROGRAM
DEVELOPMENT POLICY LOAN

February 2, 2015

Global Practice: Trade and Competitiveness
Region: Middle East and North Africa

KINGDOM OF MOROCCO—GOVERNMENT FISCAL YEAR
January 1st–December 31st

CURRENCY EQUIVALENTS
(Exchange rate effective as of December 31st, 2014)

US$1 = MAD 9.03

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ALMP	Active Labor Market Programs
AMDI	*Agence Marocaine de Développement des Investissements* (Moroccan Investment Development Agency)
BAM	*Bank Al Maghrib* (Central Bank of Morocco)
CRI	*Centre Régional d'Investissement* (Regional Centre for Investment)
CC	*Conseil de la Concurrence* (Competition Council)
DCFTA	Deep and Comprehensive Free Trade Area
GCC	Gulf Cooperation Council
CGEM	*Confédération Générale des Entreprises du Maroc* (Moroccan Business Association)
CI	*Commission des investissements* (Commission for Investments)
CNEA	*Comité National de l'Environnement des Affaires (*National Business Environment Committee*)*
CNSS	*Caisse Nationale de Sécurité Sociale* (National Social Security Fund)
CPS	Country Partnership Strategy
DPL	Development Policy Loan
ECSP	Economic Competitiveness Support Program
EFTA	European Free Trade Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FY	Fiscal Year
GDP	Gross Domestic Product
GPBM	*Groupement Professionnel des Banques du Maroc* (Professional Association of Moroccan Banks)
HCP	*Haut Commissariat au Plan* (Higher Planning Commission)
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICT	Information and Communication Technology
IMF	International Monetary Fund
MAGG	*Ministère des Affaires Générales et de la Gouvernance* (Ministry of General Affairs and Governance)
MICIEN	*Ministère de l'Industrie, du Commerce, de l'Investissement et de l'Economie Numérique* (Ministry of Industry, Commerce, Investment and the Digital Economy)
MEF	*Ministère de l'Economie et des Finances* (Ministry of Economy and Finance)
MENA	Middle-East and North Africa
MFN	Most Favored Nation
MFPMA	*Ministère de la Fonction Publique et de la Modernisation de l'Administration* (Ministry of Civil Service and Modernization of Public Administration)
OECD	Organization for Economic Cooperation and Development

OP	Operational Policy
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PAI	*Plan d'Accélération Industrielle* (Industrial Accelleration Plan)
PLL	Precautionary and Liquidity Loan
PNEI	*Pacte National pour l'Emergence Industrielle* (National Pact of Industrial Emergence)
SA	*Société Anonyme* (Corporation)
SARL	*Société à Responsabilité limité* (Private Limited Liability Company)
SME	Small and Medium Enterprise
SOE	State-Owned Enterprises
TA	Technical Assistance
TFP	Total Factor Productivity
USAID	United States Agency for International Development
WTO	World Trade Organization
ICE	*Identifiant Commun de l'Entreprise* (Common Business Identifier)
OMPIC	*Office Marocain de la Propriété Industrielle et Commerciale* (Moroccan Industrial and Commercial Property Office)

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KINGDOM OF MOROCCO

SECOND ECONOMIC COMPETITIVENESS SUPPORT PROGRAM DEVELOPMENT POLICY LOAN

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This loan was prepared by an IBRD team consisting of: Philippe de Méneval (TTL), Jean-Pierre Chauffour (co-TTL), Khalid El Massnoui, Mariem Malouche, Jean-François Arvis, Xavier Forneris, Steve Wan, David Phan, and Sanaa Bouchikhi. Najy Benhassine (Practice Manager) and Michael Hamaide (Senior Country Officer) provided detailed comments on a first draft of the Program Document. Bernard Funck provided input at various stages of the identification/preparation work. The Lawyer for this operation was Jean Charles De Daruvar. Peer reviewers were Jose Lopez Calix, Ndiame Diop and Kamer Karakurum-Ozdemir. The team worked under supervision guidance of Simon Gray (Maghreb Country Director) and Najy Benhassine (Practice Manager). Special thanks are due to the Ministry of General Affairs and Governance, the Ministry of Economy and Finance, and the Ministry of Industry, Commerce and Investment and the Digital Economy for their very productive cooperation.

LOAN AND PROGRAM SUMMARY

KINGDOM OF MOROCCO

SECOND ECONOMIC COMPETITIVENESS SUPPORT PROGRAM DEVELOPMENT POLICY LOAN

Borrower	Kingdom of Morocco
Implementing Agency	Ministry of Economy and Finance (MEF); Ministry of General Affairs and Governance (MAGG); Ministry of Industry, Commerce and Investment and the Digital Economy (MICIEN); Ministry of Civil Service and Modernization of Public Administration (MFPMA).
Financing Data	IBRD loan: US$200 million. Variable-spread loan with 25 years maturity, including a 4.5 year grace period. The proposed single tranche loan would be disbursed in one installment upon loan effectiveness.
Operation Type	The proposed loan is the second Development Policy Loan (DPL) in a programmatic series of two single-tranche DPLs.
Pillars of the Operation and Program Development Objectives	The program development objective of the Second Economic Competitiveness Support Program (ECSP II) is to support policy reforms in three key areas of the Government's comprehensive economic strategy: (a) Improving the investment climate; (b) Furthering trade policy reform and trade facilitation; and (c) Strengthening economic governance.
Result Indicators	**Pillar I. Improving the investment climate** • Number of newly created corporations that are identified through a unique business identification code • Number of simplifications and standardizations of administrative procedures made public on the Government website service-public.ma • Reduction of the formalities and duration for registering property for business • Reduction by at least 10 percent in average payment delay in sectors where average payment delay is over 100 days. • Number of companies that are reporting in certified accounts their average payment delays as per the new regulations. • Number of SARL companies formally registered • Improvement in the governance and protection of minority shareholders in corporations.

	Pillar II. Furthering trade policy reform and trade facilitation • Rationalization of tariff structure on imports through a reduction of maximum tariff quota applicable to industrial products • Percentage of products put on the market and randomly controlled which complies with the new security regulatory requirements • New petitions requesting the application of anti-dumping, anti-subsidy or safeguard measures are formally processed and published according to WTO rules and procedures. • Reduction in average transit times for goods at Casablanca port **Pillar III. Strengthening economic governance** • Assessment of costs and benefits of incentives to investment projects is included in the annual activity report of the National Commission for Investments • Number of investment climate reforms as accounted for in the Doing Business methodology that have been initiated and coordinated by the National Committee for Business Environment • Number of investigations formally conducted by the Competition Council under the new legal and regulatory framework.
Overall Risk Rating	Moderate
Operation ID	P128869

1. INTRODUCTION AND COUNTRY CONTEXT

1. ***This Program Document describes the Second Economic Competitiveness Support Program Development Policy Loan*** **(ECSP II)** which will take the form of a one-tranche budget support operation in the amount of US$200 million. It is part of a programmatic series of two DPL operations in support of competitiveness reforms in Morocco and follows the First Economic Competitiveness Support Program Development Policy Loan (ECSP I), which was approved by the Executive Board of the World Bank Group on March 12, 2013.

2. ***Over the past decade, Morocco has made good progress in carrying out business environment reforms, but the actual impact of these reforms, albeit positive, has been insufficient.*** Productivity, export development and diversification and technological intensity remain to be improved to join other emerging countries. The key indicators on private sector performance show a relatively weak entry and exit of firms in the Moroccan economy, and therefore relatively limited economic and productivity growth prospects. To achieve better economic and social outcomes, Morocco needs to strengthen policies in several key areas: maintaining the stability of the macroeconomic environment; reinforcing the governance and accountability framework; improving the business environment; developing a trade policy that better supports the competitiveness of Moroccan products; deepening a financial sector to better serve smaller firms; ensuring a labor force that is better trained, and effective social protection and labor market frameworks.

3. ***Following the adoption of a new constitution in 2011 and the arrival in power of a new coalition government headed by the Parti de la Justice et du Développement (PJD), the Moroccan authorities agreed to implement an ambitious program of institutional and economic reforms.*** However, as a result of social demands and an unfavorable external economic environment, the pace of the adoption of key pieces of legislation has been slower than foreseen, notably those supported by the ECSP series (see below). Government policy reforms have slowed down due to changes in the government coalition in July 2013, when the second political party of the coalition left. A new coalition, still led by the PJD, was established in September 2013 and reiterated its commitment to the implementation of the government program before the end of its term in 2016.

4. ***Morocco remains confronted with important social challenges and a real pressure for meaningful change.*** Poverty, inequality and vulnerability remain important challenges. Extreme poverty has been almost eradicated in Morocco and relative poverty declined from 15.3 percent in 2001 to 6.2 percent in 2011. Yet, nearly 20 percent of the population, or 6.3 million Moroccans, remain vulnerable and under constant threat of falling back into poverty. The wellbeing of the bottom 40 percent of the population also improved both in absolute terms and relative terms (i.e. the wellbeing of the poor also improved relatively to the non-poor). However, Morocco's Gini coefficient (at 0.41) signals a relatively high level of income inequality, which is also reflected in remaining gaps in access to services. Morocco still lags behind its peers in health and education achievements. Spatial disparities in poverty are also a serious concern. With less than half of the Moroccan population economically active, Morocco has one of the lowest labor participation rates among emerging economies. Morocco is in dire need of social, political and economic transformation.

5. ***To address these challenges, Morocco has developed several sectoral strategies, aimed at structuring the reform process and developing the main sectors generating growth and jobs.*** The success of the various ongoing Government sectoral plans (such as the *Pacte National pour l'Emergence Industrielle, Maroc Export Plus, Plan Maroc Vert, Plan Halieutis, Vision 2015 for handicraft)* will largely depend on the ability to coordinate, implement and evaluate policies at various levels and through various agencies. This has proven to be especially difficult in the past when strong inter-agency coordination was required, in particular to address persistent cross-cutting constraints in the business environment that impact negatively the efficiency of these governmental interventions and support plans.

6. ***In this context, the objective of the proposed ECSP II is to consolidate and deepen the economic reforms supported in the ECSP I in three cross-cutting areas that support the Government's strategy to increase competitiveness, growth and job creation***. First, the investment climate will be supported by improving corporate governance of larger firms, simplifying the regulatory environment for businesses, and increasing access to public information on businesses. Second, trade policy and trade facilitation will be supported by upgrading the regulatory framework for compliance with safety standards and easing procedures at ports of entry. Finally, economic governance will be improved by significantly strengthening the Competition Council's (*Conseil de la Concurrence* – CC) mission and prerogatives, improving transparency and accountability in the way that the Commission for Investment (*Commission des Investissements – CI*) grants investment incentives, and strengthening the public-private National Commission for the Business Environment (*Commission Nationale de l'Environnement des Affaires – CNEA*) in charge of coordinating investment climate reforms.

7. ***This DPL focuses on cross-cutting issues among the wide array of potential policy actions needed for improving Morocco's competitiveness***. Depending on each country's circumstances, improving competitiveness entails a wide range of potential policy levers: efficiency of government institutions, infrastructure quality, macroeconomic stability, quality of health and education, training, competition framework, efficiency of labor markets and financial markets, and support to innovation. In view of Morocco's sectoral strategies, this program does not ambition to address all possible competitiveness issues but to rather focus on a subset of cross-cutting problems identified by both the public and private sectors which limit the impact of these strategies, notably the investment climate, the procedures related to trade, and the efficiency of institutions important for economic governance. Other important reforms are necessary for improving Morocco's competitiveness, particularly for supporting the availability of skills, financing small and medium enterprises (SMEs) and the efficiency of public spending. The Government is addressing in parallel these reform needs, which are supported by the World Bank through complementary operations, including (i) the Skills and Employment DPL series, approved in June 2012 and August 2014; (ii) the Capital Market Development and SME Finance DPL series (the first operation approved in April 2014), and (iii) the Transparency and Accountability DPL series (the first operation approved in October 2013, the second currently under preparation).

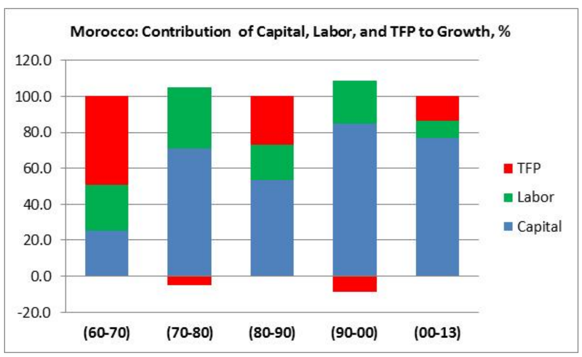
2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

8. **Morocco has made a major economic and social leap forward during the last 15 years.** While many countries in the region have witnessed stagnating economic growth, and indeed are currently under enormous economic turmoil, Morocco has been able to achieve respectable per capita income growth and preserve political stability, which in turn allowed for significant improvement in many social indicators. Morocco's real per capita income almost doubled since the stagnating situation of the 1990s; the poverty rate was twice halved during the period; average literacy rate among adults more than doubled; and Moroccans' life expectancy at birth soared to exceed 70 years. This performance was mainly due to the implementation of sound macroeconomic policies and structural reforms.

9. **Notwithstanding this performance, the Moroccan economy has remained structurally oriented toward non-tradable activities (such as construction, public works, and low value-added services) and a volatile, weakly productive agriculture.** Given this orientation, Morocco has made little productivity gains over the past two decades despite high levels of investment.[1] Investment efforts–dominated by publicly funded large infrastructure projects–have not triggered a growth take-off through higher total factor productivity (TFP). (Figure 1 below). Some positive effects may still occur in coming years as the TFP gains from government expenditures on infrastructure (energy, highways, ports, airports, industrial zones) materialize. However, Morocco has yet to guarantee the productivity gains needed to support the emergence of a larger middle class. The challenge of increasing and further sharing prosperity remains paramount.

Figure 1: Growth has mainly been driven by capital accumulation



10. **One important explanatory factor behind Morocco's weak productivity gains can be traced to its difficulty in benefitting from the current wave of globalization.** Morocco's share of global exports has hovered around 0.15 percent since the mid-1970s, while most emerging countries have seen substantial increases in their shares. The price of the national export basket has generally been higher than that of key competitors and this gap has widened since the 2008 global financial crisis. High and rising export prices are symptomatic of persistent weaknesses in the competitiveness of Moroccan enterprises on the global market. Moroccan firms strive to

[1] Morocco has consistently invested 5 to 10 percentage points of GDP more than peer countries and its total investment as a share of GDP has increased from 25 percent in the 1990s to an average 35 percent currently.

improve the sophistication and quality of their export products. While existing firms have increased their market share for existing products in existing destinations, the renewal of the exporter base with entry and exit of firms is limited, and existing firms exhibit little product and market innovation.

11. **The competitiveness challenge faced by Moroccan firms has been compounded by a series of recent adverse external shocks.** While the 2008 financial crisis has had limited direct effects on Morocco's economy, the subsequent food and fuel price crises and Eurozone crisis have had more serious repercussions. Morocco suffered a major deterioration of its terms of trade since 2008, combined with a significant increase in its food import bill (18 percent per year on average). With a strong trade exposure to the European Union (EU), Morocco has been adversely affected by the sovereign debt crises in neighboring Southern European countries and the subsequent slowdown of economic growth in Europe. As a result, economic growth beyond the agricultural sector has decelerated to an average of 3.5 percent since 2009, compared to 4.7 percent during 2000-2008. Growth has been driven mostly by debt-creating domestic demand, most notably by growing public expenditures. On the upside, the emergence of new growth drivers in higher value-added industries (such as car manufacturing and aeronautics) and the expansion of Moroccan companies in Western Africa are potentially creating the conditions for Morocco to become a regional hub for investments between Europe and Sub-Saharan Africa.

12. **In response to deteriorating fiscal trends, the Government initiated the reform of the subsidy system and began to rein in other recurrent expenditures, while consolidating tax revenues.** Morocco's fiscal balance swung from a surplus of 0.4 percent of GDP in 2008 to the highest deficit in two decades, at 7.4 percent of GDP in 2012. However, the activation of a price indexation mechanism helped cut subsidies by an impressive 24 percent (or almost 2 percentage points of GDP) in 2013. The full implementation of the fuel price-indexation mechanism helped cut further subsidies by 19.6 percent (or 1 percentage point of GDP) over the first 9 months of 2014. The fiscal consolidation measures also included limiting the rise of the wage bill by 2.2 percent through freezing of higher wages and limiting new hiring of civil servants.[2] The consolidation also entailed improving tax collection through the extension of the tax base, harmonization of tax rates and fighting tax evasion. As a result, it is expected that Morocco will reach the budget deficit target of less than 5 percent of GDP set in the 2014 Budget Law. In this context, and also thanks to increasing capital grants from the GCC, which reached US$1.1 billion by end-September 2014, the Government's financing requirements have significantly decreased compared to the period 2012-2013. The pressure on domestic liquidity was further eased by the successful issuance of 1 billion Eurobonds in international financial markets under relatively favorable terms (3.5 percent interest rate and 10-year maturity). As a result, the Central Government debt stock increased over January-September 2014 period, but at a slower pace than in earlier years, and is projected to reach 66.4 percent of GDP by end 2014 (compared to 63.5 percent of GDP in 2013).

13. **Consistent with the fiscal tightening, the balance of payments indicators improved since 2013.** After widening steadily since 2007 to reach its highest level at 9.7 percent of GDP in 2012, the current account deficit shrank to 7.6 percent of GDP in 2013. Foreign trade indicators

[2] The decision to increase minimum wages early this year is expected to have marginal impact on the public sector wage bill, as almost all civil servants have wages higher than the minimum wage.

continued to improve in 2014, with exports of goods growing by 6.1 percent, while imports stagnated at -0.2 percent. Remittances also registered positive results, increasing by 2.2 percent in 2014 while tourism receipts slightly decreased, by -0.4 percent. Overall, the current account deficit is projected to improve by an additional one percentage point of GDP in 2014 to 6.5 percent. The capital account has also improved with the above mentioned Eurobonds issuance and the issuance of US$1.85 billion raised by State owned phosphate company *l'Office Cherifien des Phosphates* (OCP). Net foreign direct investment (FDI) inflows increased by 2.6 percent on top of an exceptional performance in 2013. Consequently, net foreign reserves increased by more than US$2.3 billion reaching US$20 billion at the end of November 2014, or the equivalent of 4.8 months of 2015 estimated imports.

14. **Given Morocco's exchange rate regime and track record of low inflation, the stance of monetary policy mainly aims at accommodating the economy's liquidity needs subject to a foreign exchange reserve target.** In 2012, Bank Al-Maghrib (BAM) cut its policy rate from 3.25 to 3 percent, lowered the commercial banks' reserve requirement from 6 to 4 percent, and increased liquidity injections. To contain the adverse effects of looser monetary--and fiscal--conditions on foreign exchange reserves, the BAM tightened monetary conditions in 2013 and limited the growth of money supply to 2.8 percent (compared to 4.5 percent in 2012). As foreign exchange constraints have begun easing again since the beginning of 2014, BAM further reduced the banks' reserve requirement to 2 percent in March 2014 and cut its policy rate twice in 2014, from 3 to 2.75 percent in September and 2.50 percent in December—the lowest rate on record. However, despite easing monetary conditions, banks' credit to the economy is increasing only moderately so far this year (3.9 percent year-over-year by end August 2014). This could reflect the continued accumulation of non-performing loans (NPLs), which reached the equivalent of 6.8 percent of bank credit to the private sector at end-August 2014.[3] With the loan-to-deposit ratio exceeding 100 percent in most domestic banks, the scope for extending credits to the private sector is increasingly constrained. The implementation of the Basel III accords, which comes into force in 2014, is expected to put further pressure on credit extension, especially longer terms and to larger borrowers.

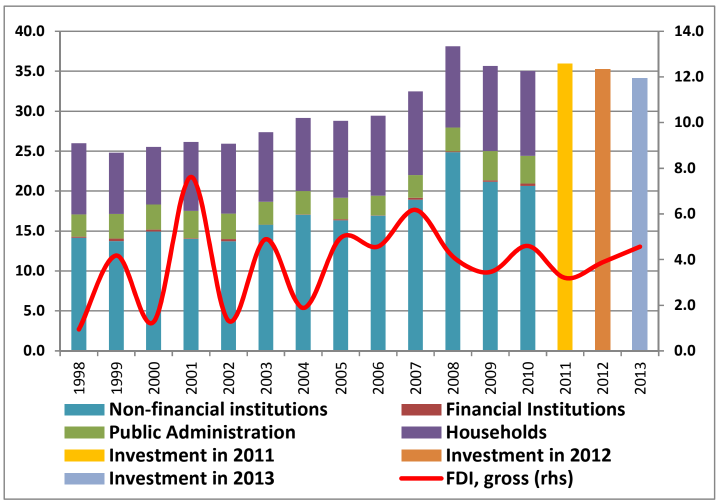
2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

15. **In the short term, domestic demand, both consumption and investment, will remain the main drivers of growth but with a growing contribution from net exports**. Domestic private consumption is expected to contribute the most to growth in the near future, but with declining shares to the benefit of investment and net exports. Helped by relatively high output gap, underlined by low capacity utilization and an unemployment rate currently close to 10 percent, the supply side of the economy would be able to scale up its output to meet the extra demand without much pressure on production factors.

[3] The increase in the NPLs is explained by two main factors: first, the pre-crisis banking sector exposure to real estate, mainly tourism projects but also high-standing residential projects. These sectors were hard hit by the 2008-2010 crisis, which resulted in increasing NPLs. Second, the central bank has conducted a comprehensive assessment of assets quality of the banking sector and related NPLs. Furthermore, following the increase in 2013 of the minimum capital adequacy ratio to 12 percent and the introduction of a minimum Tier 1 ratio of 9 percent, the central bank has ensured compliance with the new banking prudential requirements.

16. **Over the medium to longer term, Morocco's macroeconomic prospects are essentially linked to the country's capacity to generate productivity gains.** With an investment rate hovering around 35 percent of GDP since 2008, Morocco has little room for further accumulation-led growth (Figure 2). Future economic growth would therefore need to come from increased total factor productivity, which in turn requires increased efforts to improve the business environment and enhance the competitiveness of the economy. Along with the sector strategies already under implementation, these efforts would involve in the first instance improving the quality of domestic investments and continuing to attract large flows of FDIs, and over the longer run building the soft infrastructure associated with less tangible—but not less important—assets related to the accumulation of human capital, institutional capital and social capital. This would lead to more opportunities and economic freedom for all Moroccans, to compete, produce and participate in the economy, including with a greater role for the private sector.

Figure 2: Investment rates are high (% of GDP)



Source: Government of Morocco

17. **Both short and medium term prospects will continue to depend on the pursuit of sound macroeconomic policies, including a robust fiscal consolidation, a prudent monetary policy and greater flexibility in exchange rate management.** In line with the new constitutional requirement, the Government is committed to fiscal stability and to progressively reduce the budget deficit to the medium term target of 3 percent of GDP by 2017 through the implementation of a set of reforms. The key measures include: (i) continuing the reform of the universal subsidy system; (ii) implementing civil service reform, notably by introducing a ceiling on wage expenditures and a new remuneration system; (iii) accelerating the fiscal and pension reform agenda; and (iv) enhancing the efficiency of public investments. Progress was made on several fronts in 2013: the authorities reduced the quota and the per-unit subsidy on wheat harvesting in May. In July, they adopted a circular to make wage bill appropriations binding and limit the rollover of unspent investment appropriations; and in September, they started implementing the indexation of domestic prices of industrial fuel oil, gasoline, and diesel on world prices. These actions helped keep the 2013 subsidy bill closer to its budget target, while reducing the vulnerability of the budget to international commodity price movements.

18. **The 2015 Budget Law confirmed the Government's strategy to continue reforming the subsidy system and launch the reforms of the pension and fiscal systems this year.** In January 2014, the Government stopped supporting prices of gasoline and industrial fuel oil and announced a plan to phase out most of the subsidies on diesel by the end of the year. These steps constituted major milestones toward a comprehensive subsidy reform. The Government and Parliament also adopted the Organic Budget Law to enhance the Central Governments' budget design and implementation for better public service delivery and efficiency. To improve further the investment climate, the Government announced its intention to proceed with justice reform, improve access to financing, especially for the SMEs, address access to land constraints, develop logistics services, and reinforce technical training. Assuming these reforms take place, growth in the non-agriculture economy could pick up to around 5.5 percent over the medium term, with inflation kept below 2.5 percent and the budget deficit at 3 percent of GDP (Table 1 and Table 2).

Table 1: Key Macroeconomic Indicators

	Actual			Est.	Proj.			
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Real economy	Annual percentage change, unless otherwise indicated							
GDP (nominal--local currency)	5.0	3.1	5.5	5.3	6.9	7.2	7.3	7.3
Real GDP	5.0	2.7	4.4	3.0	4.6	4.8	4.9	5.0
Per Capita GDP	3.8	1.6	3.3	1.9	3.5	3.7	3.9	4.0
Contributions:								
Consumption	5.0	3.6	2.9	2.2	2.5	2.8	2.8	2.7
Investment	1.4	-1.1	-0.1	0.8	1.2	1.6	1.6	1.7
Net exports	-1.5	0.1	1.6	-0.1	0.9	0.4	0.5	0.6
Imports	5.0	1.7	-1.5	4.5	5.0	5.1	5.2	5.2
Exports	2.1	2.6	2.4	6.2	9.5	8.0	8.2	8.3
Unemployment rate (ILO definition)	8.9	9.0	9.2	10.0	…	…	…	…
GDP deflator	0.1	0.4	1.0	2.3	2.2	2.2	2.2	2.2
CPI (pa)	0.9	1.3	1.9	1.5	2.5	2.2	2.3	2.4
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Expenditures	33.1	35.0	32.1	31.6	30.8	29.9	29.2	29.0
Revenues, including all grants	26.4	27.6	26.6	26.7	26.5	26.3	26.2	26.0
Budget Balance	-6.7	-7.4	-5.5	-4.9	-4.3	-3.6	-3.0	-2.9
Central Government Debt	53.7	59.7	63.5	65.0	64.9	64.0	62.5	61.0
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated							
Base Money	6.4	4.5	3.1	6.9	7.4	7.3	7.4	7.5
Credit to non-government	10.4	5.1	3.5	4.4	5.5	5.5	6.9	7.1
Interest (key policy interest rate)	3.25	3.25	3.00	2.50	…	…	…	…
Balance of payments	Percent of GDP, unless otherwise indicated							
Current Account Balance	-8.0	-9.7	-7.6	-6.7	-5.8	-5.1	-4.5	-3.8
Imports	49.9	51.5	48.1	45.7	45.8	45.6	45.5	45.4
Exports	35.8	36.1	33.8	32.8	34.0	34.9	35.8	36.7
Foreign Direct Investment, net	2.4	2.8	2.9	2.7	2.7	2.6	2.6	2.6
Net reserves in US$, bln (eop)	20.3	17.2	18.4	20.0	21.4	23.3	24.3	25.8
In months of next year's imports	4.9	4.1	4.3	4.4	4.5	4.6	4.5	4.5
As % of short-term external debt	2.4	2.0	2.1	2.3	2.5	2.7	2.8	3.0
External Debt	26.3	30.9	32.6	34.0	35.8	36.5	36.0	35.8
Terms of Trade, change in %	4.1	-13.1	-15.8	-0.4	-1.1	-0.2	-0.5	-0.5
Exchange rate (average)	8.09	8.628	8.40	8.15	…	…	…	…
Other memo items								
GDP, nominal MAD, bln	802.6	827.5	872.8	918.9	982.1	1,052.4	1,128.9	1,211.8
GDP, nominal US$, bln	99.2	95.9	103.9	112.8	…	…	…	…

Source : Morocco's Government and staff estimates and projections

19. **The Central Bank also announced last year its objective to move towards a more flexible exchange rate mechanism over the next three years.** In doing so, Morocco wants to keep its monetary autonomy while strengthening its competitiveness. The Central Bank has been preparing for a number of years to manage the transition to a more active management of the exchange rate. To this end, encouraging progress has been achieved, including the development of a new framework for monetary policy to target inflation directly, the strengthening of the Central Bank's capacity to safely operate in a more flexible exchange rate environment, and the gradual rebuild-up of foreign exchange reserves. Morocco has also maintained a favorable access to capital markets and Moroccan banks have continued to strengthen their capital base and management of exchange risks. The IMF has been providing technical assistance in support of the Central Bank's plan to move towards a more flexible regime.

20. **The external position is expected to remain sustainable over the medium term provided that key critical reforms under implementation continue to take hold.** The current account deficit is projected to gradually decline to less than 5 percent of GDP in 2017 benefiting from improved export potentials and a recovery of tourism activities and workers' remittances. The latter would benefit from the anticipated progressive recovery in Europe, the main source of remittances flow to Morocco. This scenario critically assumes that Morocco would benefit from its continued reform efforts supported by a number of World Bank-financed DPLs. These reforms, along with sector strategies already under implementation, would translate into higher productive private investments, including FDIs, and progressive gains in competitiveness of its exports, including tourism. Exports should also benefit from some diversification toward the BRICS (Brazil, Russia, India, China, and South Africa) and other major developing countries, including in Sub-Saharan Africa.

Table 2: Fiscal Indicators of the Central Government (in % of GDP)

	Actual			Est.	Proj.			
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Overall Balance, including all grants	**-6.7**	**-7.4**	**-5.5**	**-4.9**	**-4.3**	**-3.6**	**-3.0**	**-2.9**
Primary balance	-4.3	-4.9	-2.2	-0.9	-0.6	0.0	0.5	-0.2
Total revenues	**26.4**	**27.6**	**26.6**	**26.7**	**26.5**	**26.3**	**26.2**	**26.0**
Tax revenues	23.7	25.3	23.3	23.0	23.0	22.9	22.9	23.5
Taxes on goods and services	11.6	11.8	11.2	11.4	11.3	11.2	11.1	11.4
Direct taxes	8.8	9.5	8.8	8.6	8.7	8.7	8.8	9.1
Taxes on international trade	1.3	1.1	0.9	1.0	1.0	1.0	1.0	1.0
Other taxes	1.7	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Special accounts, balance	0.3	1.0	0.5	0.2	0.2	0.2	0.2	0.2
Non-tax revenues	2.4	2.1	2.5	2.3	2.3	2.3	2.3	2.3
Grants, all	0.3	0.2	0.8	1.4	1.2	1.1	1.0	0.3
Expenditures	**33.1**	**35.0**	**32.1**	**31.6**	**30.8**	**29.9**	**29.2**	**29.0**
Current expenditures	**26.9**	**28.8**	**26.5**	**25.9**	**25.0**	**24.1**	**23.5**	**23.1**
Wages and compensation	11.1	11.7	11.3	11.0	10.7	10.5	10.4	10.2
Goods and services	4.8	5.3	5.3	5.3	5.5	5.6	5.6	5.6
Interest payments	2.3	2.4	2.6	2.6	2.7	2.7	2.6	2.6
Subsidies	6.1	6.6	4.8	4.3	3.6	2.8	2.3	2.1
Current transfers to Local Gov.	2.7	2.7	2.6	2.6	2.6	2.6	2.5	2.6
Capital expenditures	**6.2**	**6.2**	**5.5**	**5.8**	**5.8**	**5.8**	**5.8**	**5.9**
Central Government financing	**6.7**	**7.4**	**5.5**	**4.9**	**4.3**	**3.6**	**3.0**	**2.9**
External (net)	0.7	1.8	1.7	2.4	1.7	1.4	1.3	1.5
Domestic (net)	6.0	5.6	3.8	2.4	2.6	2.2	1.8	1.4
of which privatization	0.7	0.4	0.0	0.2	0.2	0.2	0.2	0.2

Source: Morocco's Government and staff estimates and projections

21. **External debt is expected to peak at around 36.5 percent of GDP in 2016 before declining thereafter.** Foreign reserves would remain above four months of imports, assuming foreign investors retain confidence and Gulf Cooperation Council (GCC) financial support continues. External financing requirements constitute a moderate concern in the medium term, given the still low external debt, financial support from the GCC, access to international markets, and still adequate foreign reserves. Current account deficits are projected to narrow steadily in the medium term, and financing them should not be a constraint. Any remaining financing gap could be filled by tapping international markets.

Table 3: Balance of Payments Financing Requirements and Sources (in US$ million)

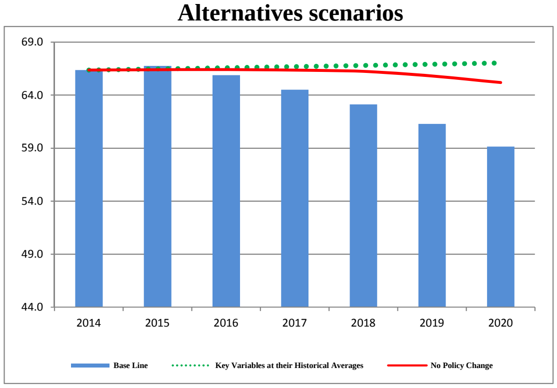
	Actual			Est.	Proj.			
	2011	2012	2013	2014	2015	2016	2017	2018
Financing Requirements	**11,300**	**13,140**	**11,609**	**11,241**	**10,704**	**10,346**	**10,781**	**9,475**
Current accounts deficit	7,986	9,347	7,878	7,510	6,851	6,451	6,008	5,393
Long term debt amortization (exl. IMF)	2,436	2,769	3,998	2,887	2,826	2,927	3,871	3,273
Other short term capital outflows	879	1,024	-267	844	1,028	968	901	809
Financing Sources	**11,300**	**13,140**	**11,609**	**11,241**	**10,704**	**10,346**	**10,781**	**9,475**
FDI and portfolio investments (net)	2,156	2,720	3,249	3,100	3,300	3,508	3,673	3,847
Capital grants	10	174	60	749	1,265	1,255	1,245	259
Long term debt disbursements (exl. IMF)	4,506	6,122	7,504	7,339	6,800	6,566	6,071	6,195
Other short term capital inflows	1,609	1,018	2,071	1,586	927	868	801	709
Change in reserves (-=increase in reserves)	3,019	3,106	-1,274	-1,532	-1,588	-1,850	-1,009	-1,535
IMF credit (net)	0	0	0	0	0	0	0	0

Source: Morocco's Government and staff estimates and projections

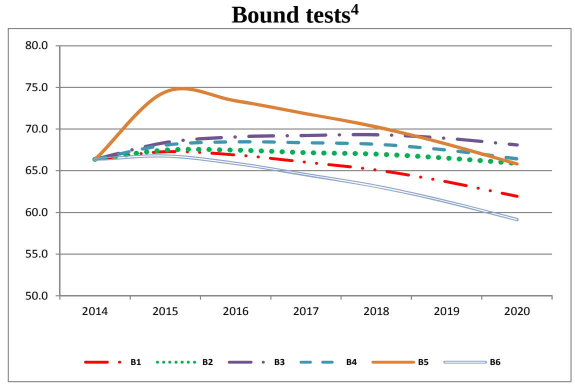
22. **The public debt sustainability analysis indicates that the framework remains sustainable although it would weaken under a scenario of medium term downside risks (Figure 3).** Indeed, when the debt sustainability analysis is based on the assumption of "no-policy-change", the debt stock increased steadily over the period 2013-2019. All the six bound tests proved sustainable over the medium term, although three of them show debt-to-GDP ratios in the range of 65-67 percent.

Figure 3: Central Government and External Debt Sustainability (in % of GDP)

Alternatives scenarios

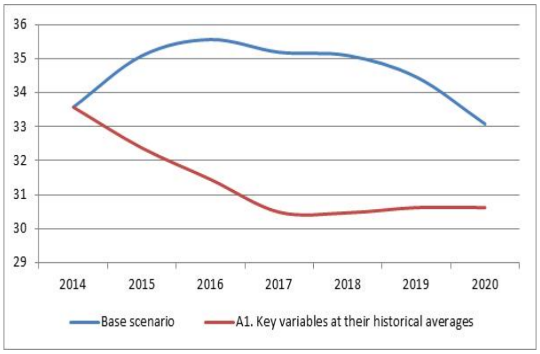


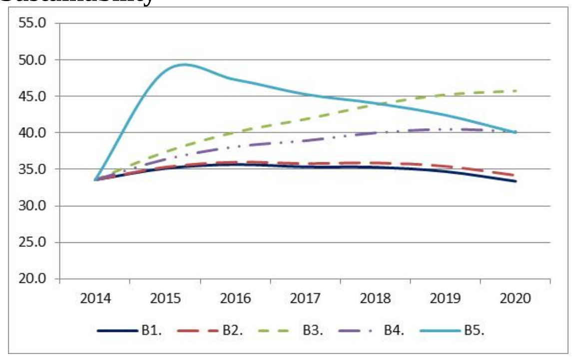
Bound tests[4]



[4] B1: Real interest rate is at baseline plus one standard deviations; B2: Real GDP growth is at baseline minus one-half standard deviation; B3: Primary balance is at baseline minus one-half standard deviation; B4: Combination of B1-B3 using one-quarter standard deviation shocks; B5: One time 30 percent real depreciation in 2015; and B6: 10 percent of GDP increase in other debt-creating flows in 2014.

External Debt Sustainability





Source: Government and World Bank staff calculation

23. **In August 2012, the IMF and the Government agreed on an SDR 4.12 billion (approximately US$6.2 billion) Precautionary and Liquidity Line (PLL).** When completing the third and last review of the PLL in January 2014, the IMF found that, notwithstanding the continued unfavorable external environment and challenging domestic conditions, Morocco's macroeconomic performance improved in 2013, supported by strong policy commitments and implementation, as well as the insurance provided by the PLL. In a subsequent visit in May 2014, the IMF Managing Director encouraged the Moroccan authorities to take further measures to push ahead with difficult fiscal reforms and implementing a structural reform agenda in support of competitiveness, a strengthened business environment and higher job creation. The PLL continued to provide a potential line of credit until August 2, 2014 when it closed without Morocco drawing on the resources. On July 28, 2014, the IMF approved a new 24-month arrangement for Morocco under the PLL in an amount equivalent to SDR 3.2 billion (about US$5 billion).

24. **In sum, progress toward fiscal consolidation and improvement in external indicators underscore that the Government's macroeconomic policy framework remains adequate.** Nevertheless, difficult conditions in the global and regional environment and the slow pace of some key reforms entail significant downside risks. Slower recovery of the global economy, especially in Europe, would limit Morocco's export potential and would require additional macroeconomic adjustments. Greater volatility of the world financial markets is also a source of risk. In addition, the three debt sustainability analysis tests that put the medium-term public debt-to-GDP ratio in the 65-67 percent range highlight the risks posed by a limited reform scenario. Yet, Morocco has also demonstrated its willingness and capability to adjust policies and introduce corrective measures to overcome the adverse effects of shocks. Morocco managed to keep its investment grade rating and its access to international financial markets with relatively favorable conditions. The successful implementation of the Government's revamped development strategy would ensure that the negative effects of most of the anticipated risks discussed above are weathered successfully.

2.3 RELATIONS WITH THE IMF

25. **The World Bank and the IMF maintain a close collaboration in Morocco.** Fund and Bank teams have regular exchanges on macro-financial issues with a common understanding on the division of labor and a shared assessment of the critical macroeconomic challenges facing the country. Discussions focus on the respective work programs and recent macro-financial developments and prospects. Bank-Fund collaboration reflects the importance of transversal DPLs

in the Bank's portfolio. Fund staff participates in Bank project reviews, while Bank staffs are consulted in the preparation of IMF missions and contribute to the Fund's Article IV consultation missions to Morocco. The ongoing analytical work being carried out by the Fund team focuses on (i) the medium-term outlook for public finances; (ii) an analysis of the real exchange rate; and (iii) the macroeconomic implications for Morocco of the global financial crisis and its aftermath in Europe.

3. THE GOVERNMENT'S PROGRAM

26. ***The 2012-2016 government's program is structured around the following five pillars***: (i) deepening national identity and social cohesion; (ii) the rule of law and advancement of regionalization and governance; (iii) job creation and economic development; (iv) national sovereignty and social development; and (v) strengthening social services, including those aimed at Moroccans living abroad. The cross-cutting actions supported by the competitiveness operation support pillars (ii) and (iii) above.

27. ***Improving competitiveness is central to the Government program for a shared economic development and job creation***. For the period 2012-16, the program aims for a growth rate of 5.5 percent, an inflation rate of two percent, reducing unemployment to 8 percent and consolidating the budget deficit to 3 percent by 2016. Sector-specific strategies developed under previous Governments (*Programme Emergence* in industry and IT services, *Plan Azur* and *Vision 2020* for tourism, *Plan Maroc Vert* for agriculture and agribusiness, *Maroc Export Plus* in exports) continue to be developed. These sectoral plans consist mainly of tax incentives to specific sectors, combined with dedicated infrastructure investments. The ambitious industrial strategy "National Pact of Industrial Emergence 2009-2015 (PNEI)"[5] signed between public and private sector representatives before the King in February 2009 is implemented under a new approach, the "Industrial Acceleration Plan" ("*Plan d'Accélération Industrielle 2014- 2020*") launched in April 2014 by the new Minister of Industry, Commerce, Investment and Digital Economy. This new strategy aims at developing "ecosystems" that will scale up and better integrate value chains, notably through improving linkages between large companies and SMEs. Sizeable financial support of up to 20 billion Dirhams has been committed by the Government to support this new approach over the duration of the new strategy.

28. ***In the investment climate and economic governance area, the Government is pursuing an ambitious plan to simplify regulations and increase predictability and consistency in the way rules are enforced***. Among others, the Government is undertaking a comprehensive overhaul of the existing tax and legal framework supporting investment and strengthening the institutional framework for competition policy. In this respect, the new Competition Law approved by the Parliament in March 2014 benefitted from EU support (twinning with Germany) and integrates the Organization for Economic Cooperation and Development (OECD) principles on best competition regulation practice. In the investment climate area, the Government is pursuing an ambitious plan to simplify regulations and increase predictability and consistency in the way rules

[5] The Pact Emergence comprises 10 different pillars: Off-shoring, Automobile, Aeronautic, Electronics, Textile and Leather, Agro-Industry, SME Competitiveness, Investment Climate, Training, Industrial Zones. It has given strong signals to the automobile and aeronautic sectors which have benefited from notable foreign investments over the recent years.

are enforced. These reforms are undertaken under the purview of the public-private National Business Environment Committee (*Comité National de l'Environnement des Affaires* – CNEA) chaired by the Head of Government. The CNEA has been instrumental in prioritizing the investment climate reform agenda and improving Morocco's score in the annual Doing Business survey.

29. ***In the trade policy area, Morocco is pursuing its integration into the world economy while adopting a regulatory framework aimed at better protecting national production from unfair practices.*** The Government completed in 2012 a 4-year tariff reduction schedule to lower the tariff differential between the common tariff (MFN) and the preferential tariffs and to harmonize the tariff structure by lowering the number of MFN tariff bands to four (2.5 percent; 10 percent; 17.5 percent and 25 percent). The authorities also launched an ambitious legal reform agenda aimed at progressively aligning their legal and institutional framework of foreign trade and consumer protection on the new international trade rules. Key legislations recently approved or under preparation include a World Trade Organization (WTO)-compliant trade defense mechanisms; safety regulations on traded products and services; and a new international trade law providing for a formal registration of importers and exporters and more transparent and inclusive consultation modalities prior to the negotiation of any future trade agreements. This international trade law also provides for supplementary measures to protect national production, whose effectiveness and usefulness remains to be seen given Morocco's international and bilateral trade commitments and the mixed track record of such measures in international experiences.

30. ***At the bilateral level, the implementation of a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU should facilitate a competitiveness-enhancing process of regulatory convergence.*** The current framework for EU-Morocco trade relations is the Association Agreement, which entered into force in 2000 and provided for a Free Trade Area. The two sides subsequently negotiated an agreement on further liberalization of trade in agricultural products which entered into force in 2012. The next phase of the EU-Morocco trade relations is to move beyond market access and to bring Moroccan legislation closer to EU legislation in trade-related areas. Negotiations for a DCFTA were launched in April 2013 and four rounds of negotiation have taken place so far. The DCFTA will extend significantly beyond the scope of the existing Association Agreement to include trade in services, government procurement, competition, intellectual property rights, investment protection and the gradual integration of the Moroccan economy into the EU single market, for example in areas like industrial standards and technical regulations or sanitary and phytosanitary measures. Discussions were reported to advance relatively well on all issues and texts for nearly all chapters on the table and the Moroccan authorities have undertaken an impact assessment of the potential effects of the DCFTA.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

31. ***The proposed ECSP II is the second and last operation in a programmatic DPL series.*** The ECSP II is designed to support the deepening, completion, and/or implementation of the legal and institutional reforms that were initiated by the Government and supported under the first operation ECSP I (cf. Box 1 below for a review of achievements to date). It focuses primarily on the objectives outlined in the second and third pillars of the government program described above.

It supports the various Government sectoral strategies aimed at improving Morocco's economic competitiveness through mainly a cross-cutting, horizontal approach. This is an ambitious program which continues to be a political priority for the Government. However, the schedule for its rollout slowed down with the changes in the Government coalition in 2013 and the adoption of numerous organic laws required under the new Constitution.

Box 1 : Achievements of the Economic Competitiveness Programme to date

The Programme to improve Economic Competitiveness, supported by the ECSP achieved tangible results, including notably:

- *Common Business Identifier (Identificant Commun de l'Entreprise – ICE)*: Duly adopted in a 2008 decree, the ICE has not been implemented by the authorities. The Government has re-launched this reform, which is a necessary step to simplify the business environment. The database was officially inaugurated by the Head of Government in October 2014 and the first common identifiers were delivered to existing businesses.
- *Simplification and standardization of procedures*: The Government reactivated its policy of simplifying procedures, taking into account the need for transparency by users. The government site, service-public.ma, was redesigned and now presents information on more than 600 administrative procedures, including a substantial part which applies to businesses. The procedures selected within the remit of the ECSP will be outlined on this website.
- *Payment deadlines*: In line with international practices for the settlement of late payments in contractual relations, the government modified the Code of Commerce in order to impose maximum deadlines for payment and an automatic calculator for increased penalties. To conform to this new legal framework, businesses with auditors produced statistics on their payment deadlines at the time they published their 2013 audited accounts.
- *Abolition of minimum capital requirements for SARL corporate forms*: Following the government approval for the law simplifying the creations of SARLs and abolishing the requirement for a minimum capital, the number of new businesses created under this legal form went from 2,768 in 2010 to 3,723 in 2013. The single-shareholder SARLs, often the primary beneficiaries of the abolition of a minimum capital, saw their share rise significantly from 34 percent in 2008 to 44.3 percent in 2013.
- *Rationalization of the import tariff structure*: As Morocco's economy has become increasingly open to international trade, between 2009 and 2012 the Government put in place a program to reduce most-favored nation (MFN) tariffs and the number of tariff bands for industrial goods.
- *Strengthening of transparency and the predictability of the legal framework for trade defense*: Since the adoption of the trade defense law which applies to antidumping, compensation and safeguards, the inquiries and decisions on trade defense are formally undertaken according to the regulations and procedures of the WTO and are published at every stage (notice, public hearing, opening report, preliminary report).
- *Rationalization of the logistics of trade in ports of entry*: Following the rollout of the Portnet system and the computerization of exchanges, import operations in the arrival phase saw their duration reduced by two days in Casablanca port.
- *Improved impact evaluation of investment incentives*: The secretariat of the Commission for Investments started to apply better practices in terms of the evaluation of costs and benefits of incentives to be granted to investment projects submitted for approval of the Commission for Investments (according to the manual prepared with the World Bank), notably at its last session in December 2014 during which 29 investment projects received incentives.
- *Improvement of the business environment*: the National Committee for Business Environment has improved the implementation of reforms in the business environment, resulting notably in Morocco's significant progress in the Doing Business report (ranked No 97 in the 2013 report published in October 2012, and No 71 in the 2015 report published in October 2014).

32. ***The program development objective of the ECSP II is to support policy reforms in three key areas of the Government's economic strategy*****:** (a) Improving the investment climate; (b)

Furthering trade policy reform and trade facilitation; (c) Strengthening economic governance. These reforms will in turn contribute to enhanced prospects for competitiveness, growth and job creation. In agreement with the authorities, the ECSP II addresses only a sub-set of key areas relevant to increased competitiveness of the Moroccan economy. It focuses on key cross cutting themes ready for implementation. Other relevant issues are either addressed through parallel World Bank-financed operations (e.g. labor market policy and higher education, financial sector reform, reform in public procurement and SOE governance) or will require additional policy dialogue before a credible and sustainable reform agenda can be designed (most notably energy policy and land policy reforms).

33. ***The program's objective is directly linked to the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner.*** Indeed, the reforms supported by the ECSP II are expected to energize investment and trade, two key engines of Morocco's future growth performance and capacity to create high-value private sector jobs and grow the middle class. Improved competition, a more transparent investment framework and regulatory simplification, all supported by ECSP II, will notably improve equality of opportunities and inclusion through creating a level-playing field for all players, reducing corruption and encouraging the inclusion of the informal sector into the economy. The trade pillar will also favor greater integration into the global economy, which is one of the most effective means to reduce poverty. The Growth Commission report analyzed thirteen successful economies that have achieved high, sustained growth and concluded that the most important and shared characteristic of successful growth was countries making the most of the global economy and that properly exploited it for the benefit of all citizens.[6]

34. **The ECSP series design was informed by the broad lessons learned from other operations in Morocco**.[7] In general, successful FY10-13 CPS interventions enjoyed high-level government ownership and integration with government programs; participatory approaches; effective technical assistance (TA); and well-specified, operationally integrated, and regularly monitored outcome indicators. In addition, although significant sector advancements were made through single-sector DPLs, the FY10-13 CPS completion report pointed out the importance of supporting more ambitious second-generation reforms with cross-sectoral dimensions while continuing to focus on service provision, strengthening coordination to achieve tangible results, and enhancing citizen participation. These lessons have been followed in the ECSP series, which responds to the Government's request for more multi-sector programs to help tackle more complex, multidimensional problems. As the ECSP II is implemented by a large number of Government entities, the MAGG was in charge of coordinating the program, in close coordination with the MEF, a role both Departments have played satisfactorily under the ECSP I and other DPLs. Donor coordination is also playing an important role in the success of lending operations. Accordingly, the ECSP II operation was prepared in close coordination with the EU, the main partner and TA provider active in the area of competitiveness in Morocco.[8]

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[6] Kanbur, Ravi; Spence, Michael. 2010. *Equity and Growth in a Globalizing World: Commission on Growth and Development*. World Bank.

[7] Country Partnership Strategy for the Kingdom of Morocco for the Period 2010-2013 (Report No. 50316-MA), Appendix 3; and Country Partnership Strategy for the Kingdom of Morocco for the Period 2014-2017, Appendix 3 (Report No. 86-518-MA)

[8] The EU has had a program in support of the competitiveness agenda in Morocco since 2009 including dedicated technical assistance to key Government agencies. Of particular relevance to the ECSP series, the strengthening of the capacity and powers

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

35. ***The ECSP II nine prior actions and associated results indicators are set out in the Policy and Results Matrix provided in Annex 1.*** There is overall little change of substance and objective when compared to the indicative triggers envisioned under ECSP I, with the exception of indicative trigger Di6, which has been dropped. Some indicators have been either strengthened or fine-tuned to better reflect the expected results of the actions. The table below summarizes and explains material changes affecting four indicative triggers of ECSP II (at the time of ECSP I approval) as reflected in the ECSP II prior actions.

Table 4: Material Changes in ECSP II Prior Actions

Indicative Trigger (as stated in ECSP I)	Revised Prior Action	Change and Rationale
Di3. Implementing regulations to regulate penalties for late payments provided under Law No 32-10 have been issued.	**D3. Budget Law No. 110-13 has been published in the National Gazette No. 6217bis dated December 31, 2013, which inter alia modified the Tax Code (*Code Général des Impôts*) to allow the tax deductibility of late payment penalties paid in application of Law No. 32-10.**	**Substitution to reflect acceleration of policy changes.** Latest implementing regulations (Arrêté No 3030-12) needed for implementing the Law No 32-10 was published in the National Gazette on November 15, 2012, right after negotiations of ECSP I but before its approval. Accordingly, the wording of the prior action of ECSP II has been modified to refer to the follow up modification of the Tax Code needed to adapt the corporate tax to the new regime of late payment penalties.
Di6. The Law modifying the Law No 13-89 dated November 9, 1992 on International Trade has been adopted and is in force.	**Prior action dropped**	**Prior action dropped.** Preparation of the draft external trade law has been delayed and the lack of draft implementing decrees could not allow a full assessment of its potential value added regarding aspects that justified its inclusion in the program. This action is not an essential component of the program and its impact (once the implementation decrees are adopted) will be modest given Morocco's international and bilateral trade obligations.

of the Moroccan Competition Council took place within the framework of a twinning program between German and Moroccan Competition Authorities financed by the EU.

<u>Di8</u>. The new Investment Law and its implementing regulations have been adopted and are in force, and provide for a legal framework encouraging investment, bringing more transparency on incentives and how they are granted by the National Commission for Investments (CI), and provide for the modalities of the evaluation of costs and benefits of investment projects submitted to the CI.	**<u>D7.</u> Circular No. 01/2015 relating to the guide for the assessment of costs and benefits to investment projects submitted for approval to the Investment Commission (*Commission des Investissements*) has been issued by the Head of Government on January 16, 2015.**	**Substitution of action**. This action has been substituted to reflect postponement of the adoption of the new investment law in 2015. This delay is resulting from the ongoing comprehensive overhaul of the incentives framework in line with the recently approved Industrial Acceleration Plan *("Plan d'Accélération Industrielle*"). To continue aligning the prior action with the initial focus of the indicative trigger on improving transparency in the way incentives are granted to investment projects, the prior action has been replaced by the signature by the Head of Government of a circular regarding the guide on **costs and benefits of incentives to be granted to investment projects** prepared by the Moroccan Investment Development Agency (AMDI), in concert with other concerned ministerial departments, members of the technical committee in charge of preparation and monitoring for the CI, and with World Bank assistance. This substitution does not impact the envisioned result of the initial trigger.
<u>Di10</u>. The new legal framework modifying the Competition and Freedom of Pricing Law No 06-99 and reinforcing the powers and independence of the CC has been published in the National Gazette and is in force.	**<u>D9</u>. Decree No 2-14-652 for the implementation of the Law No 104-12 of June 30, 2014 relating to the freedom of prices and competition, which, inter alia, reinforces the powers of the Competition Council (*Conseil de la Concurrence*), was issued by the Head of Government on December 1, 2014 and published in the National Gazette No. 6314 dated December 4, 2014.**	**Adjustment to reflect changes in the actual action**. Since approval of the ECSP I, the legal framework now comprises two separate laws instead of one, both adopted by Parliament in February 2014: the Law No 104-12 and the Law No 20-13. The actual measure relates to implementing regulations of the Law No 104-12 defining freedom of competition and the powers of the Competition Council. Under this new law, the Competition Council is no longer merely an advocacy body, as it is also endowed with the power to investigate cases and impose sanctions. These new powers will allow the Competition Council address more successfully anti-competitive behaviors and encourage the emergence of new competitors. The implementing regulations of the Law No 20-13 relating to the setting up of the Competition Council comprise the adoption of a Royal decree (Dahir) appointing the Chair of the Competition Council, which is beyond the scope of powers of the Government. Authorities are committed to finalize the appointment process before the end of current legislature term.

36. **The design of this operation benefitted from significant analytical and technical work undertaken during previous assistance and operations,** in addition to the entirety of the reports written for this operation to take into account the challenges and specific questions about prior actions. Box 2 below summarizes the principal recent analytical foundations used.

Box 2: ECSP II Prior Actions and Analytical Underpinnings

Pillar 1: Improving investment climate

The following analytical products informed the debate about the reforms supported under pillar 1:

- Periodic surveys of industrial firms, including notably the Investment Climate Assessment surveys conducted in 2005 and 2008. These surveys were instrumental in diagnosing key constraints to enterprises and quantified the firm-level productivity gap in manufacturing, which can partly be explained by high factor costs (particularly high labor costs and low labor productivity).
- Business legal and regulatory reviews focused on the Doing Business indicators and regulatory simplification (2009, 2010). These technical notes identified legal and regulatory constraints in the Moroccan business environment as measured by the Doing Business indicators. It later led to technical assistance that focused in particular on simplifying business entry (reducing and then abolishing the mandatory minimum capital requirement) and commercial law (including alternative dispute resolution).
- OECD's report on the investment climate in Morocco (2011). This comprehensive report provides a detailed overview of investment climate and competitiveness issues in 12 distinct areas, ranging from the legal and regulatory environment, to trade policy issues and competition and economic governance issues. Its findings reinforce the overall messages from the other analytical work conducted by the Bank, and confirm that the focus on economic governance issues, policy coordination failures, access to information and investment climate reforms is a priority to improve competitiveness in Morocco.

Pillar 2: Furthering trade policy reform and trade facilitation

The following analytical products informed the debate about the reforms supported under pillar 2:

- Country Economic Memorandum (CEM) (2006) and Trade Chapter Update (2011). The issues identified at the time of the Morocco CEM (lack of diversification, lack of structural transformation of the industrial sector, need to have sector-specific policies, uncertainty and discretion in how the business environment rules apply, competition issues and trade policy distortions) remain valid today, even if improvements have taken place in a number of areas.
- MENA region flagship report on trade and FDI "From Political to Economic Awakening in the Arab World: The Path of Economic Integration" (2013). The analysis in this regional report identified (inter alia) the FDI regime, the business climate and economic governance as key issues to foster competitiveness and diversification in the Arab countries in transition, including Morocco.
- A series of analytical notes on trade and competitiveness has been prepared, covering the following issues: (1) Current account sustainability; (2) Exchange rate role as determinant of firm performance; (3) How do Moroccan exporters adjust to exchange rate movement? (4) A product space perspective on structural change in Morocco; (5) Linking firms' intermediate input imports and export performance; (6) Does input tariff reduction impact export performance? (7) Standards harmonization as export promotion; and (8) Institutional assessment for good governance over trade regulation.
- An analytical note reviewing the draft International Trade Law has been prepared by the team and shared with the Department of Commerce. It concluded that while the new law would clarify certain aspects of the initial legal framework envisioned, the potential added value of the draft law against the program objectives could not be fully evaluated because of the lack of draft implementing decrees. Nevertheless, the impact of the new law once its implementing decrees are adopted will be modest given Morocco's international and bilateral trade obligations.

Pillar 3: Strengthening economic governance

- The following analytical products informed the debate about the reforms supported under pillar 3:
- MENA region flagship report on private sector development "From Privilege to Competition" (2009). The analysis in this regional report identified economic governance issues as a key impediment to private sector development in MENA. Most of the reports' messages apply to the Moroccan context and the report itself built on Morocco-specific case studies and analysis. The report highlighted in particular the gap between business

regulations as they appear on the books, and their implementation. Issues of discretion, arbitrariness, competition and lack of transparency and accountability were prominent in the report's findings.

- The ECSP DPL series explicitly build on these findings to address concretely these issues in the proposed policy matrix (in the areas of investment incentives, standardization of regulatory processes and forms, sharing of firm-level information between administrations and competition policy).
- An analytical note reviewing the draft Investment Law has been prepared by the World Bank and shared with the MICIEN. The Government is in the process of reviewing the draft Investment Law and its implementing decree in light of these comments.
- An advisory service has been provided to the AMDI and stakeholders from other departments involved in the process of granting incentives to investment projects. This assistance supported the AMDI in designing and drafting a guide for coordinating the assessment of cost and benefits of incentives to investment projects submitted to the Commission for Investments.

PILLAR 1. IMPROVING THE INVESTMENT CLIMATE

37. ***This pillar focuses on four key dimensions to improve Morocco's business climate:*** Enhancing e-governance for regulatory and administrative simplification; Simplifying administrative procedures and improving transparency; Reducing the financial burden on SMEs resulting from excessive payment delays; and Modernizing the legal framework for entry and governance of corporations under SA status.[9]

a. Setting up a common identifier for businesses (Action D1)

38. ***Prior action.*** The database delivering the common identification codes for businesses in accordance with Decree No 2-11-63 published in the National Gazette No 5952 of June 16, 2011 is operational and the first common business identifiers (*Identifiants Commun de l'Entreprise*) have been issued.

39. ***Policy context.*** In line with best practices followed by most developed countries, the Moroccan authorities launched in 2008 the project to introduce a common enterprise identifier. Decree No 2-11-63 was adopted in 2008, providing for the establishment of an Inter-ministerial Committee in charge of managing the establishment and rolling out of the enterprise identifier. The ECSP series supported this policy action that had been lagging while being repeatedly identified as an essential step for the successful implementation of e-government reform. Under the ECSP I, the Inter-ministerial Committee has appointed the Tax Administration to be in charge of hosting, managing and operating the database centralizing the common business identification codes. The ECSP II supports the actual implementation of the common business identifier among the key concerned authorities. This database does not aim to centralize all information on companies in one single database, as each administration will continue using its own database and administer related information. Rather, it is aimed at providing a unique identifier for each corporation and registered trader, in order to facilitate exchanges of data between the key authorities involved in the process of registering corporations and traders.

[9] Prior actions supported under pillar I have been identified on the basis of analytical studies (see Box 2 above), including surveys of industrial firms, related to the investment climate conducted in 2001, 2005, and 2008; the indicators from the Doing Business reports; and the OECD report on the investment climate in Morocco (2011).

40. ***Expected results.*** Assigning a common identifier number to each business will enable key authorities concerned by business creation to share and exchange information through connected databases. Ultimately, this will help enable e-registration of business companies as well as the implementation of other e-government reforms in the investment climate area. Tax compliance enforcement will also be improved as different agencies will be able to share more easily updated enterprise data. The statistical system for the enterprise sector will also greatly benefit from this reform as up-to-date firm-level databases with reliable data become available. These concrete improvements in the way Government agencies interact with the private sector will be key to the success of many other e-government reforms contributing to the competitiveness of Morocco.

b. Simplifying and standardizing administrative procedures for businesses (Action D2)

41. ***Prior Action.*** At least twenty (20) administrative procedures applicable to business were simplified and standardized on the official government website (service-public.ma), notably for the transfer of property. A supplementary list of at least twenty (20) new simplification and standardization procedures were identified and validated by the public-private working group established by MFPMA under the National Business Environment Committee.

42. ***Policy context.*** As a key member of the CNEA, the MFPMA has been the designated authority in charge of piloting and coordinating a renewed endeavor at simplifying and standardizing existing procedures applicable to businesses. The focus of the new initiative was steered towards increasing transparency, predictability and standardization of procedures across the territory. A pilot program was designed by the MFPMA with World Bank support. This program includes simplifying procedures whenever feasible, as well as developing and/or upgrading and simplifying forms used for a pilot sample of 20 procedures selected by the private and public partners of the CNEA, and making them available online on a national website (service-public.ma). Under the ECSP I, the CNEA has approved a first list of 20 administrative procedures for businesses that would be part of the pilot program.[10] ECSP II supports the effective implementation of this simplification and standardization effort for these 20 administrative procedures, and provides for the identification through public-private dialogue of another batch of at least 20 procedures.

43. ***Expected results***. Despite progress over the recent years as evidenced by Morocco's improvement in the Doing Business ranking,[11] Morocco's business environment needs to be enhanced for entrepreneurs in many areas. It is expected that simplifying and standardizing forms, and making them available online will enable to significantly strengthen the certainty and ensure increased uniformity in the application of administrative procedures, via increased access to reliable information and transparency. In particular, Morocco's score in the Doing Business indicator measuring the ease of registering property should improve significantly. The procedures selected for simplification and standardization are being chosen amongst the list identified by

[10] These procedures apply to creating a business, operating a business (registering with social security, paying taxes, registering intellectual property rights, transferring corporate headquarters, etc.), transferring property and trading across borders (customs procedure).
[11] After being ranked No 129 in the Doing Business 2010, Morocco was the global top reformer in the Doing Business 2012, improved further in the Doing Business 2014 and 2015 reports, and has now reached the overall ranking of 71 (out of 189 countries).

various ministries and should not adversely impact existing standards for public health, safety and the environment.

c. *Strengthening the legal framework applying to late payments in commercial contracts (Action D3)*

44. ***Prior Action*.** Budget Law No. 110-13 has been published in the National Gazette No. 6217bis dated December 31, 2013, which inter alia modified the Tax Code (*Code Général des Impôts*) to allow the tax deductibility of late payment penalties paid in application of Law No. 32-10.

45. ***Policy context.*** Access to finance is among the top constraints mentioned by Moroccan firms as an investment climate impediment. In May 2012 the median payment delay was 107 days, with two important sectors being outliers: construction and infrastructure (135 days), and services to companies (158 days).[12] For SMEs, this problem is exacerbated by the burden on their treasury management resulting in long delays in getting paid when contracting with larger firms or with public administrations. In line with practices followed by most European Union countries, regulating the payment delays in commercial contracts by imposing a cap on maximum contractual delays (3 months) and imposing automatic calculation of higher penalties as well as rapid judicial procedures for SMEs to enforce their contractual rights, the Law No 32-10 modifying the Code of Commerce and imposing minimum standards in payment delays in commercial contracts has been approved by Parliament and published in the National Gazette. This reform has been supported under the ECSP I. Following the adoption of the implementing regulations specifying the penalty rate applicable for late payments, the tax treatment of late payments penalties was modified and clarified in the Tax Code through the Finance Law for 2014. This modification of the Tax Code is the prior action of the ECSP II. Further discussions between the Government and CGEM are still ongoing regarding the application of this new framework to the late payment penalties applicable to public procurement.

46. ***Expected results*.** The impact on treasury and cash flow management of small firms resulting from late payments in commercial contracts will be lessened as a consequence of more stringent legal provisions. In addition, it is expected that the measurement methodology regarding late payment delays for commercial contracts will be standardized across companies, which will report more transparently on their average payment delays. Accordingly, one of the immediate impacts of the DPL series will be to establish a measurement mechanism aligned with best international practices. This prior action will have no direct impact on payment delays in public procurement contracts, which are provided under the public procurement law and addressed through a separate reform program supported by the EU in collaboration with the Bank.

[12] These data are produced though a sample survey undertaken each year by the Central Bank based on the commercial registry/intellectual property office (OMPIC), as the standardized accounting format imposed by the new law on payment delays is only entering into force for the 2014 fiscal year.

d. Modernizing the legal framework for governance of SA firms (Action D4)

47. ***Prior Action***. The Government Council has approved on May 28, 2013 the draft Law No. 78-12 modifying and completing Law No 17-95 on corporations (*Sociétés anonymes*), inter alia simplifying the creation of corporations and improving their governance.

48. ***Policy context.*** Under the ECSP I, the Law No 24-10 amending the Law No 05-96 and abolishing the requirement of a minimum capital for incorporating a limited liability company (*Société à responsabilité limitée - SARL*) has been approved by Parliament and published in the National Gazette on June 30, 2011. In the ECSP II, a law for simplifying the creation of joint-stock corporations (SA) and improving their governance has been approved by the Government Council. Amendment of the SA law includes around 30 modification of the existing law and builds on a previous 2008 reform. In line with recommended best practices, it is facilitating the disclosure and e-filing of accounts and other corporate documents of SA, strengthening the regime of prior disclosure and approval of related party transactions (this action could have an impact on the Doing Business ranking of Morocco in "protecting investors"), making it mandatory for listed firms to establish an audit committee, simplifying the means of convocation of shareholders' meeting (by electronic means), improving the level of disclosure of companies to their shareholders in case of merger and acquisition, and limiting the purchase by a SA of its own shares.

49. ***Expected results.*** Better governance and transparency in the management of the SA, which is the legal form under which all major firms are incorporated in Morocco, will contribute to leveling the playing field among main business operators. It should notably contribute to reenergizing equity investment, in particular for listed companies in the Casablanca Stock Exchange. Strengthened minority shareholders' legal rights investing in SA will contribute to increasing competition, investment, and productivity growth.

PILLAR 2. FURTHERING TRADE POLICY REFORM AND TRADE FACILITATION

50. ***In addition to the sustained reduction of tariffs implemented over the years, Morocco has implemented numerous trade facilitation reforms***: infrastructure investments in roads and ports have increased significantly, customs procedures have been streamlined as well as ports procedures; an online trade platform has been implemented by the customs administration; services liberalization has been successfully implemented in the civil aviation area and to a lesser extent, in the commercial shipping sector and logistics. Moreover, a new trade logistics strategy has been launched in 2012 and Morocco is pioneering dedicated logistical platforms in the region in support of foreign trade and the retail sector. Two remaining important unfinished business items concerning Morocco's trade policy and trade facilitation reforms immediate involve the Modernization of the legal and institutional framework of foreign trade; and the Streamlining of trade logistics at the ports of entry.[13]

[13] Prior actions supported under pillar II were identified on the basis of analytical studies (see Box 2 above), including: the Country Economic Memorandum (CEM) (2006), the 2008 policy notes on conditions for an accelerated and more equitable economic growth; the MENA region flagship report on trade and FDI "From Political to Economic

a. Modernizing the legal framework for trading products and services (Action D5)

51. ***Prior Action.*** Decree No. 2-12-502 for the implementation of Law No. 24-09 of August 17, 2011, relating to the safety of products and services was issued by the Head of Government on May 13, 2013 and published in the National Gazette No. 6158 dated June 6, 2013.

52. ***Policy context.*** Within the context of increasingly open trade, it is essential that Morocco upgrades its framework of import norms and standards and strengthens its capacity to protect its market from various risks. In the ECSP I, the Head of Government has issued the implementing Decree regulating anti-dumping, anti-subsidy and safeguard measures in accordance with the Law No 15-09 on Trade Defense published on June 30, 2011. The Law on Trade Defense aims at strengthening the tools to protect the Moroccan market from dumping and other non-competitive or illegal practices, while ensuring compliance with WTO rules. To complete the updating and modernization of Morocco's trade regulatory framework, the Government has adopted on May 13, 2013 the implementing regulations relating to the safety of products and services. These regulations apply to domestic products as well as to imported products.

53. ***Expected results.*** Safety standards for products and services apply both to imported goods and services and those produced locally. They help bring Morocco's legal and regulatory framework into line with international practices and as a result foster better integration of the Moroccan private sector into international trade. In addition a strengthened regulatory and institutional framework to protect the Moroccan market from the imports of non-compliant products in terms of safety and standards should encourage local enterprises and consumers to rely on formal complaint mechanisms established in the new regulations to protect their rights.

b. Streamlining trade logistics at the ports (Action D6)

54. ***Prior Action.*** The state-owned company Portnet has put in place a computerized data exchange system for port operations that allows the electronic management of import documents through the interconnection of key public authorities and private trade operators involved in external trade procedures (Customs, traders, banks, Commerce Department, Foreign Exchange Office).

55. ***Policy context.*** As part of the ongoing trade facilitation reforms, increasing the electronic data exchange between key operators is essential to streamline port and customs operations. Under the ECSP I, the company Portnet was established in January 2012 by all concerned public authorities and private trade operators in order to develop and manage the computerized data exchange system for port operations. Following the computerization of the data exchanges for the port landing phase, the ECSP II aims at supporting the interconnection of main public and private operators involved in port procedures in order to allow the electronic management of import documents.

Awakening in the Arab World: The Path of Economic Integration" (2013); a series of analytical notes on trade and competitiveness; and an analytical note reviewing the draft International Trade Law.

56. ***Expected results.*** Implementing a computerized one stop shop accessible to key public authorities and private trade operators involved in port procedures will allow simplifying external trade operations, notably those related to the management of import documents, through suppressing the submission and transmission of paper documents. This simplification will reduce the transit time in ports. Discretion and corruption should also be reduced when the automated data exchange system is fully in place.

PILLAR 3. STRENGTHENING ECONOMIC GOVERNANCE

57. ***This pillar focuses on three essential aspects of economic governance***: (a) Assessing costs and benefits of incentives granted by the Commission for Investments, (b) Improving the public private coordination for business environment reforms, and (c) Strengthening the institutional framework for the competition.[14]

a. Assessing costs and benefits of incentives granted by the National Commission for Investments (Action D7)

58. ***Prior Action.*** Circular No. 01/2015 relating to the guide for the assessment of costs and benefits to investment projects submitted for approval to the Investment Commission (*Commission des Investissements*) has been issued by the Head of Government on January 16, 2015.

59. ***Policy context.*** Under the ECSP I, the Head of Government has issued a Circular whose purpose is to clarify the conditions according to which the secretariat of the Investment Commission (CI), which is in charge of evaluating costs and benefits of investment projects approved by this Commission, undertakes assessments with the assistance of the concerned ministerial departments and public bodies, and prepares an annual report on those investment agreements. The AMDI's capacity to evaluate investments has been reinforced with the preparation of an operational cost-benefits assessment manual with World Bank assistance. The assessment applies to the incentives provided to a project, comparing the costs to the budget (grants and tax relief) to the expected economic impact (job creation, spillover effects, etc.). The approval by the Head of Government (who is also president of the CI) of a guide to evaluation of cost-benefits replaces the indicative trigger of ECSP II relating to the adoption of the new Investment Law, which was delayed due to the change in the Government coalition and the launching of the new *Plan d'Accélération Industrielle* in April 2014 by the new Minister of Industry, Commerce, Investment and the Digital Economy.

60. ***Expected results.*** After launching the Emergence programme in 2005, signing the Emergence Pact in 2009 and launching the industrial acceleration plan in April 2014, the Government undertook a series of ambitious sectoral strategies for promoting the structural

[14] The identification and design of the prior actions of this pillar were informed by several analytical products (see Box 2 above), including the MENA region flagship report on private sector development "From Privilege to Competition" (2009); an analytical note reviewing the draft Investment Law; and a technical assistance to the AMDI to design a manual for coordinating the assessment of cost and benefits of incentives granted by the National Commission for Investments.

transformation of the industrial sector and to encourage emerging activities dependent on exports. This sectoral approach depends notably on sectoral "enclaves", or specified geographical zones, in which a world-class business environment, combined with investment incentives, are intended to attract investment, particularly from abroad. Under this sectoral approach, the approval of a common methodology for applying cost benefit assessments to state incentives will allow a more effective implementation of the Government subsidized interventions through increased transparency, information sharing, and assessments. The implementation of costs benefit assessments will also support the preparation by the AMDI of an annual report on cost and benefits of state incentives to investment projects.

b. Improving the public private coordination for business environment reforms (Action D8)

61. ***Prior Action.*** The National Business Environment Committee (*Comité National de l'Environnement des Affaires*) has approved on December 17, 2013, its annual reform program for 2014 in accordance with Decree No. 2-10-259 dated October 29, 2010.

62. ***Policy context***. As reforms to the investment climate and competitiveness are by nature cross-cutting, the challenge of coordinating between ministries has often slowed the implementation of reforms. To improve this coordination and the efficiency of the implementation of business environment reforms, the Government created the CNEA in 2010. Important steps have been taken to strengthen and institutionalize the CNEA as the focal point for high-level investment climate policy coordination. Under the ECSP I, the MAGG has issued a Decision dated October 29, 2012 establishing within the MAGG a dedicated Department in charge of coordinating investment climate reforms and acting as the secretariat of the CNEA. Supported by a strong dedicated team, the CNEA has been able to significantly improve inter-ministerial coordination and speed-up the implementation of business environment reforms. The Government is committed to supporting the efficiency of the CNEA through strengthening the coordination of the secretariat of the CNEA with the Office of the Head of Government. The CNEA has met annually under the chairmanship of the Head of Government to review and approve its annual reform program. The ECSP II supports the rolling out of the reform program though adoption of a more ambitious reform program for 2014, which includes inter alia reform actions aiming to modernize business law, simplify administrative procedures, develop e-government, facilitate access to finance, and improve commercial justice (court procedures, bankruptcy).

63. ***Expected results.*** The CNEA as a public-private platform to identify, coordinate and implement investment climate reforms is strengthened and institutionalized. Reforms in the investment climate area are accelerated and sustained, especially when they involve more than one agency, and Morocco is implementing additional positive reforms accounted for in the annual Doing Business report. The CNEA approves its annual reform programs and publishes a progress report on its website.

c. Strengthening the institutional framework for the competition (Action D9)

64. ***Prior Action.*** Decree No 2-14-652 for the implementation of the Law No 104-12 of June 30, 2014 relating to the freedom of prices and competition, which, inter alia, reinforces the powers of the Competition Council (*Conseil de la Concurrence*), was issued by the Head of Government on December 1, 2014 and published in the National Gazette No. 6314 dated December 4, 2014.

65. ***Policy context.*** In line with the new Constitution of July 2011, the Government launched an innovative reform to competition law to act against monopolistic behavior and reduce vested interests within the Moroccan economy. Until now, the Competition Council (CC) has mainly been an advisory body to the Government. Under the ECSP I, the Government Council has approved the draft Laws modifying the Competition and Freedom of Pricing Law No 06-99, reinforcing the powers and independence of the CC. This Law, together with the parallel Law establishing the new governance of the Competition Council were then approved by the Parliament and published in the National Gazette in March 2014. The new Law on freedom of prices and competition gives the CC the power to investigate and sanction monopolistic behavior, mergers and collusion to address long lasting entrenched monopolistic situations. It integrates best practices on regulating competition and it is in line with the new Constitution that provides specifically for the independence of the CC and enlarges its scope of responsibilities. The impact of the new legal framework will depend upon the forthcoming appointment of the CC's new members and the effective implementation of its powers.

66. ***Expected results.*** Numerous sectors of the Moroccan economy continue to suffer from the lack of competition and the oligopolistic position of several major established enterprises. This affects negatively the economic competitiveness as rent-seeking prevents the new actors and innovation from emerging. The reforms supported by the ECSP II will significantly strengthen the Competition Council's capacity and allow it to play an active anti-trust role due to its power to investigate and sanction, in line with international best practices. The CC will notably take over the ongoing investigations undertaken by the MAGG's Directorate of Price and Competition.

4.3 LINK TO CPS AND OTHER BANK OPERATIONS

67. ***The Country Partnership Strategies (CPS) for fiscal years FY2010-2013 and FY2014-2017 place economic competitiveness squarely at the center of Morocco's development agenda to accelerate sustainable and inclusive economic growth***. Support to economic competitiveness is a key component of the World Bank Group's program and the ECSP DPL series is a central instrument of the Bank's lending support. It has contributed to achieving the first pillar of the FY2010-2013 CPS aimed at "Enhancing growth, competitiveness and employment" while contributing significantly to the CPS cross-cutting governance theme. The ECSP series contributes equally to the first and third pillars of the recently approved CPS for FY14-17, discussed by the World Bank Group's Board of Executive Directors on April 29, 2014 (Report No. 86518-MA), which aim at Promoting Competitive and Inclusive Growth; and Strengthening Governance and Institutions for Improved Service Delivery to All Citizens, respectively.

68. ***The proposed operation is closely linked to three other lending operations recently approved or under preparation***: (i) Skills and Employment DPL series; (ii) the First Capital Market and SME Finance DPL; and (iii) the Accountability and Transparency DPL series. All

three are instrumental in supporting the Government of Morocco in accelerating growth and employment creation and have been developed in close coordination.

- The *Skills and Employment DPL series* (First DPL, approved on June 2012, Report No. 68822-MA; Second DPL, approved on August 26, 2014, Report No. 89186-MA) addresses competitiveness issues linked to the quality of education and vocational training. It focuses on: (i) improving relevance of skills produced by the higher education, vocational education, and training systems to the labor market needs; (ii) strengthening intermediation services; (iii) improving job quality; and (iv) establishing a strengthened labor market information system.

- *The First Capital Market Development and SME Finance DPL (approved on April 29, 2014, Report No. 86203-MA)* aimed at (i) deepening capital markets, broadening range of instruments and investors, and developing ancillary services in support of Morocco's ambitions for Casablanca Finance City; (ii) initiating pension reform to help anchor long-term savings and secure continued institutional demand for capital market securities; (iii) fostering access for small and young firms, within broader financial inclusion agenda; and (iv) Consolidating financial sector oversight to balance greater access with continued stability.

- *Accountability and Transparency (Hakama) DPL (DPL I approved on October 29, 2013, Report No. 72127-MA)* provides additional complementarities on the economic governance pillar as it focuses on (i) corporate governance of public enterprises through adoption of the code of corporate governance for state-owned enterprises; (ii) new laws on public-private partnerships and on public procurement, to include all public agencies and entities, and strengthen transparency in the tendering process; (iii) fiscal transparency policy and an access to information law.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

69. ***Consultations on economic and trade policies have been systematized by the Moroccan authorities in recent years.*** The sectoral strategies that have been prepared over the recent years (*Programme Emergence* in industry and IT services, *Plan Azur* for tourism, *Plan Maroc Vert* for agriculture and agribusiness, *Maroc Export Plus* in exports) have all involved sustained and open consultations with the private sector. These have taken the form of annual national public events ("*assises*") in each sector, as well as more technical consultations to prepare each strategy. These consultations have involved the main business association, the Moroccan Enterprises Association (*Confédération Générale des Entreprises du Maroc* – CGEM) and its sectoral and regional branches. In addition, the policies supported by the ECSP series have been the subject of large public-private consultations, including on the effects of Morocco's trade openness on macroeconomic performance.

70. ***Public-private forums for improving consultations during the preparation of laws, regulations and administrative reforms have been established***. Committees like the CNEA have been institutionalized and provide a forum for regular consultations with the private sector. Several measures supported by the ECSP series are included in the annual reform program of the CNEA and have been supported by technical assistance by the Bank, which notably entailed conducting

dialogue with representatives of the private sector, such as CGEM representatives, business lawyers, accountants, and SME managers. The creation of the CNEA followed the conclusions of a World Bank technical assessment for the MAGG in 2008 and 2009, the results of the Doing Business annual survey, and its inclusion as a specific measure in the PNEI signed in February 2009. Reinforcing the efficiency and ensuring the sustainability of the CNEA is one of the actions of this DPL. Consultations on important and sensitive issues like competition have also been organized regularly by the CC, in particular to prepare the new law.

71. ***Furthermore, since a decree of May 2009, the Secretary General of the Government is required to publish on its website, drafts of the key economic or trade laws for a minimum period of two weeks for public consultation.*** It is then required to publish the comments received and finalize the draft laws taking into account relevant comments received. For example, the Competition Law supported by this DPL was consulted upon for thirty days before it was adopted by the Government. The comments received through this consultation period have translated into a revised and improved draft law. This consultation also applies to all the laws that are in the realm of trade and trade agreements, such as the Morocco-US FTA or the forthcoming Deep and Comprehensive FTA with the EU.

72. ***Donors involved in the competitiveness agenda were also consulted with respect to several actions included in the proposed DPL.*** The Morocco Economic Competitiveness program of the United States Agency for International Development (USAID), supported the Moroccan Government's policy to improve investment climate reforms in several respects, notably the development of the common business entity identifier that constitutes a prior action of the proposed DPL. The OECD was also consulted during the preparation of ECSP I with respect to the findings of its report on the investment climate in Morocco, which offers specific recommendations on how the policy, institutional and legal framework can be improved to enhance the business climate. This report notably confirms that the focus on economic governance issues, policy coordination failures, access to information and investment climate reforms is a priority to improve competitiveness in Morocco.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

73. ***The proposed ECSP II does not support reforms that are expected to have significant negative distributional impacts.*** Reforms in the areas of investment climate (Pillar I) and economic governance (Pillar 3) are expected to generate direct positive effects on productivity and/or employment and unambiguously lead to positive poverty and social outcomes. Reforms in the area of trade and trade facilitation (Pillar 2) are usually more of a source of concern. This is one reason why the Bank together with the Moroccan counterparts prepared and disseminated a series of trade papers to investigate the macroeconomic and structural effects of the tariff liberalization conducted during 2009-2012 (the other being to inform Morocco's future trade policy). The studies found that Morocco benefited from its past efforts to open the economy, including attracting larger FDI, but that the benefits have remained limited because of difficulty to expand the export supply, especially at the extensive margin (i.e., new products and/or new markets). Contrary to countries undergoing rapid structural transformation, Morocco does not

seem to have been exposed to the kind of large labor and social mobility that risk leaving segments of the population temporarily on the side in the absence of social safety nets. To better understand factors that affect labor mobility over time, including in relation to structural transformation, the Bank and the Higher Planning Commission (HCP) have developed an ambitious analytical work program on growth, labor markets and poverty.

74. ***Policies supported by the ECSP DPL series will contribute to reduce gender-based occupation segregation and help remove barriers that still prevent women from working in high productivity sectors.*** Women's economic participation in Morocco - at 26 percent - is among the lowest in the world, and has not changed since 1990. Gender segregation in employment is pervasive, with women working predominantly in low-skill and low-productivity occupations in the informal sector. A common explanation for this relative stagnation in Morocco's female labor force participation (FLFP) is found in the slow pace of structural transformation of the economy and the lack of expansion in sectors that are critical for expanding female employment like manufacturing and services. Measures to improve the investment climate will directly help address many of the problems experienced by informal firms, the majority of which are owned and managed by women. In 2009, only 1.6 percent of women in rural areas were registered with social security compared to 41.1 percent of urban women.[15] Removing the constraints and barriers to formal business establishment will predominantly help women involved in unpaid/subsistence agriculture. In the same vein, the measures aimed at facilitating trade and improving economic governance should boost the creation of export-oriented firms and disproportionally benefit women. Indeed, young and exporting firms – in the manufacturing sector alone - hire five times more women than non-exporting firms. In manufacturing, sectors such as garments and apparels are particularly 'female-friendly'.[16]

5.2 ENVIRONMENTAL ASPECTS

75. ***The ECSP DPL series is not expected to have any significant environmental implications.*** The policies supported by the proposed operation are unlikely to cause significant effects on the country's environment, forests, and other natural resources, as they are oriented toward improving economic competitiveness and the business environment and do not include physical investments. In particular, it must be noted that the proposed simplification, standardization and certification of administrative procedures for businesses supported by this operation does not target environmental procedures (i.e. licensing) and should not adversely impact existing standards for public health and safety and the environment. Morocco has developed a well-articulated legal and institutional framework for environmental protection. Law No. 12-03 approved in 2003 and related decrees define the requirements for Environmental Impact Assessments (EIAs), including review and oversight structures for implementation, such as national and regional EIA committees, as well as procedures for public consultation and disclosure. The monitoring and control framework has also been recently strengthened through the creation of national and regional observatories for environmental protection, and the introduction of an

[15] Gatti, R.; Angel-Urdinola, D.; Silva J. and Bodor, A. 2011. *Striving for better jobs: The challenge of Informality in the Middle East and North Africa.* Washington D.C.: World Bank

[16] Daniela Marotta, *Morocco, Mind the Gap, Empowering Women for a More Open, Inclusive and Prosperous Society*. June 2014 (not yet published).

environmental policy. Various donors and development agencies provide support to Morocco's environmental sustainability agenda.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

76. ***PFM issues.*** In 2009, the World Bank and the EU carried out a joint Public Expenditure and Financial Accountability (PEFA) assessment. The PEFA report confirmed substantial progress in Public Finance Management (PFM) reforms in Morocco. The results based on the PEFA ratings indicate in particular that Morocco has an overall credible, comprehensive, and transparent budget. The Ministry of Economy and Finance publishes the annual budget on its website in a timely fashion. The PFM reforms aim at supporting the achievement of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. The main challenges of the Morocco PFM relate to: (a) public finances consolidation; (b) modernization of the budget classification; (c) timeliness of annual statements, which are submitted for external audit 15 months after the end of the fiscal year; (d) the limited extent of legislative scrutiny of external audit reports, and (e) the insufficient frequency, scope and follow-up of audits. The Government is committed to address these challenges. It has introduced measures to: (a) move to a performance based budgeting framework, (b) develop a medium term expenditure framework to assist in fiscal sustainability, (c) modernize its accounting and internal audit framework, and (d) improve revenue management. In conclusion, the strength of Morocco's PFM system and the Government's commitment to reform, taken together, are, in the Bank's view, adequate to support the proposed operation. A new PEFA conducted with the EU and the AfDB is foreseen, tentatively in 2015, as soon as the new PEFA methodology has been approved by the PEFA Steering Committee.

77. ***Foreign exchange issues***. The IMF's safeguards assessment of BAM of February 2013 found a robust framework with strong internal and external controls, supported by several good governance practices. The assessment highlighted that existing safeguards and governance practices should be complemented by stronger legal and financial reporting frameworks which are needed to enhance the legal autonomy of the BAM and strengthen the timely publication of audited financial statements. Since then, BAM has implemented recommendations from the assessment, including publication of audited financial statements. Existing governance practices and safeguards will be enshrined in the new central bank law currently awaiting adoption by the Council of Government. As with recently approved DPLs, a dedicated account will be used for this operation.

78. ***Disbursement and Auditing***. With reference to the flow of funds, the proposed loan will follow the World Bank's Disbursement procedures for development policy lending. The operation consists of a single tranche to be made available upon effectiveness. Specifically, disbursements will be made, provided that the World Bank is satisfied with the program being carried out by the Borrower, and with the appropriateness of the Borrower's macroeconomic policy framework. The account into which the loan proceeds will be deposited forms part of the country's official foreign exchange reserves. Flow of funds (including foreign currency exchange) is subject to standard public financial management processes. The government budget is comprehensive, unified and subject to centralized treasury account.

79. The loan proceeds will be deposited by the International Bank of Reconstruction and Development (IBRD) in a dedicated account opened for this DPL by the Borrower and acceptable

to the World Bank at the BAM, upon submission of a signed withdrawal application. The Borrower should ensure that upon the deposit of loan proceeds into said account, an equivalent amount, in the local currency, is credited to the treasury current account. The Borrower will report to the Bank within thirty days of disbursement on the amounts deposited in the dedicated account and credited to the budget management system providing the exchange rate applied and the date of the transfer. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, IBRD will require the Borrower to promptly upon notice refund an amount equal to the amount of said payment to IBRD. Amounts refunded to the Bank upon such request shall be cancelled. The loan proceeds will be administered by the MEF.

80. IBRD reserves the right to ask for a transaction audit of the dedicated account. This audit, when asked for, will cover the accuracy of the transactions (credits and debits) of the dedicated account, including accuracy of exchange rate conversions, confirming that the dedicated account was used only for the purposes of the operation where no other amounts have been deposited into the account. Also the auditor would have to obtain confirmation from corresponding bank(s) involved in the funds flow regarding the transaction. The time period for submission of the audit report to the World Bank would be four months from the date a request for such audit is issued.

5.4 MONITORING AND EVALUATION

81. ***The ECSP II implementation will be under the overall coordination of the MAGG, through regular contact with the three main implementing ministries***: the MEF, the MICIEN and the MFPMA. These ministries will be responsible for monitoring and evaluating reforms they implement directly or indirectly. Indeed, parts of the various programs are under the direct responsibility either of entities that have a hierarchical relationship with one of the abovementioned ministries (such as the Customs administration, the AMDI, the CNEA, and OMPIC). The Economic, Social and Environmental Council (CESE) and the Competition Council will also be a source for monitoring sector performance indicators. The ECSP II implementation progress will be monitored based on a results framework which comprises the results/outcomes indicators highlighted in the policy matrix. These indicators will be closely monitored during supervision missions.

6. SUMMARY OF RISKS

82. ***Political and Governance (moderate).*** The dispensation arising from the new constitution and the 2011 elections has led to the formation of a new coalition government and has slowed the implementation of an ambitious legislative agenda triggered by the new Constitution. Reform of the budget process, justice reform and the new access to information framework are examples of key ongoing reforms to foster greater transparency and accountability that have registered important delays. Upcoming local elections planned for 2015 may also have an impact on the implementation of some reforms supported by the ECSP II. However, the political context remains relatively stable as the King has set a clear set of development priorities, which are supported across the political spectrum and are consistent with the program.

83. ***Macroeconomic (moderate).*** Morocco continues to face the challenge of leveraging its political stability, proximity to Europe, and relative investment attractiveness into a decisive edge

for rapid and inclusive economic catching-up. The combination of strong social demands, difficult conditions in the global and regional environment and the slow pace of some key reforms entail significant downside risks. Slower recovery of the global economy, especially in Europe, would limit Morocco's export potential and would require additional macroeconomic adjustments. Greater volatility of the world financial markets is also a source of risk. Yet, Morocco has also demonstrated its capability to adjust policies and introduce corrective measures to overcome the adverse effects of shocks. After a sharp deterioration of its public finances during 2009-2012, the Government took the necessary (unpopular) measures to put its fiscal stance back on track. Morocco also managed to keep its investment grade rating and its access to international financial markets at relatively favorable conditions. The successful implementation of the Government's revamped development strategy would ensure that the negative effects of most of the anticipated risks discussed above are weathered successfully. Accordingly, except for a few prior actions, notably the adoption of the new legal framework aimed at reducing payment delays, the above mentioned macroeconomic risks would only moderately affect the achievement of the program development objectives if they materialize.

84. ***Sector strategies and policies (substantial)***. The purpose of this program is to improve the quality of the overall environment in which sector-specific policies and strategies are implemented. With respect to the areas of investment climate and economic governance, policies and strategies of the government policy are generally adequate for the purposes of the program and consistent with the country’s development strategy and objectives, but could nevertheless face some resistance from certain groups to their implementation. With respect to sectoral strategies and external trade policy, the authorities’ goal to strengthen national production, notably new industries, and substitute national production for imports could ultimately benefit vested interests at the expense of the public interest, notably the consumer.

85. ***Technical design of program (moderate)***. Its technical design of actions has generally been well informed by in-depth analytical work or assistance from the Government and donors, including the World Bank. Complex actions such as applying the guide on implementing cost benefit analysis on investment incentives and applying the new competition regulatory framework have been designed taking into account both best international practices and local capacity. Other actions, such as determining the appropriate legal framework for payment delays remain, by nature, complex and could require further adjustments.

86. ***Institutional capacity for implementation and sustainability (substantial)***. The operation is somewhat complex to implement due to the need for an efficient coordination among various public and private stakeholders. Ensuring adequate institutional capacity to implement reforms supported by the ECSP series has proven a key challenge, despite decades of public sector reforms. Agencies such as the CNEA, AMDI and the Competition Council will need to upgrade their capacity to implement adequately this program. Sustained efforts have been deployed by the main donors to mobilize sizeable resources to support institutional capacity building and technical assistance needs.

87. ***Other risks (low)***. Considering the content and focus of the program, other risks such as fiduciary, environmental and social, stakeholders are deemed low.

Table 5: Risk Ratings

Risk Categories	Rating (H, S, M or L)
1. Political and governance	Moderate
2. Macroeconomic	Moderate
3. Sector strategies and policies	Substantial
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Low
7. Environmental and social	Low
8. Stakeholders	Low
9. Others	Low
OVERALL	**Moderate**

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions (ECSP I)	*Prior Actions (ECSP II)*	*Results*
PILLAR 1 : IMPROVING INVESTMENT CLIMATE		
<u>1</u>. The Inter-ministerial Committee in charge of Managing the Common Business Entity Identifier has appointed the Tax Administration to be in charge of hosting, managing and operating the database centralizing the common business identification codes in accordance with Decree No 2-11-63.	**<u>D1.</u> The database delivering the common identification codes for businesses in accordance with Decree No 2-11-63 published in the National Gazette No 5952 of June 16, 2011 is operational and the first common business identifiers (*Identifiants Commun de l'Entreprise*) have been issued.**	<u>Outcome</u>: Increasing transparency and facilitating access to firm-level information by concerned administrations and non-governmental users. <u>Indicator</u>: Number of newly created corporations identified through a unique business identification code *Baseline: 0 in 2013* *Target: all SA/SARL created after January 2015* *Source: Tax Department*
<u>2.</u> The National Business Environment Committee (*Comité National de l'Environnement des Affaires - CNEA*) has approved a priority list of at least 20 administrative procedures for businesses that will be simplified and standardized.	**<u>D2</u>. At least twenty (20) administrative procedures applicable to business were simplified and standardized on the official government website (service-public.ma), notably for the transfer of property. A supplementary list of at least twenty (20) new simplification and standardization procedures were identified and validated by the public-private working group established by the Ministry for Civil Service and Modernization of Public Administration under the National Business Environment Committee (*Comité National de l'Environnement des Affaires*).**	<u>Outcome</u>: Reducing the administrative burden on businesses and improve transparency on applicable formalities. <u>Indicator 1</u>: Number of simplifications and standardizations of administrative procedures made public on the Government website service-public.ma *Baseline: 0 in 2013* *Target: 40 by end 2015* *Source: MFPMA* <u>Indicator 2</u>: Reduction of the formalities and duration for registering property for businesses *Baseline: 8 procedures and 60 days (Doing Business 2014 published in October 2013)* *Target: 7 procedures and 40 days (Doing Business 2016 published in October 2015)* *Source: MFPMA and CNEA*
<u>3</u>. The Law No 32-10 modifying the Code of Commerce and imposing minimum standards in payment delays in commercial contracts has been approved by Parliament and published in the National Gazette No. 5984 dated October 6, 2011.	**<u>D3.</u> Budget Law No. 110-13 has been published in the National Gazette No. 6217bis dated December 31, 2013, which inter alia modified the Tax Code (*Code Général des Impots*) to allow the tax deductibility of late payment penalties paid in application of Law No. 32-10.**	<u>Outcome</u>: Improving transparency on payment delays and reducing payment delays in sectors where average payment delay is above the maximum set under the new applicable legislation. <u>Indicator 1</u>: Reduction by at least 10 percent in average payment delay in sectors where average payment delay is over

		100 days. *Baseline: Average payment delays over 100 days in industrial manufacturing, real estate, public construction and professional services (2012 estimates)* *Target: 10 percent reduction in average payment delays estimates in aforementioned sectors in 2015.* *Source: Estimates by BAM, OMPIC* Indicator 2: Number of companies that are reporting in certified accounts their average payment delays as per the new regulations. *Baseline: 0 in 2012* *Target: all companies with certified accounts for 2015* *Source: OMPIC*
4. The Law No 24-10 amending the Law No 05-96 and abolishing the requirement of a minimum capital for incorporating a limited liability company (*Société à responsabilité limitée - SARL*) has been approved by Parliament and published in the National Gazette No 5956 bis dated June 30, 2011.	**D4. The Government Council has approved on May 28, 2013, the draft Law No. 78-12 modifying and completing Law No 17-95 on corporations (*Sociétés anonymes*), inter alia simplifying the creation of corporations and improving their governance.**	Outcome: Facilitating business creation and strengthening governance of SA companies. Indicator 1: Number of SARL formally registered *Baseline: 2,768 in 2010* *Target: 3,900 by end 2015* *Source: OMPIC* Indicator 2: Improvement in the governance and protection of minority shareholders in corporations. *Baseline: Morocco score in Doing Business 2014 in the protecting minority investors indicator (6/10 in extent of disclosure index; 2/10 in extent of director liability index)* *Target: Improvement in Morocco score in Doing Business 2016 in the protecting minority investors indicator* *Source: Doing Business, CNEA.*
PILLAR 2. FURTHERING TRADE POLICY REFORM AND TRADE FACILITATION		
5. The MEF has issued Circular No. 5306/210 dated December 30, 2011 regarding the tariffs reduction on imports of industrial products for 2012.		Outcome: Rationalization of tariff structure on imports Indicator: Rationalization of tariff structure on imports through a reduction of maximum tariff quota applicable to industrial products (chapter 25 to 97 of customs duties) *Baseline: 30 percent in 2011* *Target: 25 percent in 2012* *Source: Customs authorities*

The law No 24-09 dated August 17, 2011 on the safety of products and services. Publication has been approved by Parliament and published in the National Gazette No. 5984 of October 6, 2011.	**D5. Decree No. 2-12-502 for the implementation of Law No. 24-09 of August 17, 2011, relating to the safety of products and services, was issued by the Head of Government on May 13, 2013 and published in the National Gazette No. 6158 dated June 6, 2013.**	Outcome: Enhancement of transparency and predictability on the regulatory framework applicable to safety and hygiene standards for local producers and importers Indicator: Percentage of products put on the market and randomly controlled which complies with the new security regulatory requirements *Baseline: 93 percent of controlled products are compliant.* *Target: 95 percent of controlled products are compliant.* *Source: MICIEN*
6. The Head of Government has issued the implementing Decree regulating anti-dumping, anti-subsidy and safeguard measures in accordance with the Law No 15-09 on Trade Defense published in the National Gazette No 5956 bis dated June 30, 2011.		Outcome: Adaptation of the national legal framework with the international trade agreements signed by Morocco, and enhancement of transparency and predictability on mechanisms for adapting local industries to the competition with imports (commercial defense) Indicator: New petitions requesting the application of anti-dumping, anti-subsidy or safeguard measures are formally processed and published according to WTO rules and procedures *Baseline: Piecemeal publication of enquiry proceedings.* *Target: Systematic publication of the stages of enquiry proceedings (notice, hearing, opening report, findings report)* *Source: Commerce Department*
7. The company PORTNET in charge of operating and managing the information and technology system for data exchange between public authorities and private trade operators has been established by its shareholders on January 19, 2012.	**D6. The state-owned company Portnet has put in place a computerized data exchange system for port operations that allows the electronic management of import documents through the interconnection of key public authorities and private trade operators involved in external trade procedures (Customs, traders, banks, Commerce Department, Foreign Exchange Office).**	Outcome: Reduction of administrative burden (time and costs) and increased transparency for importers and exporters. Indicator: Reduction in average transit times for goods at Casablanca port *Baseline: 10 days (July 2013)* *Target: Fewer than 7 days (End 2015)* *Source: Customs, Portnet*

PILLAR 3 : STRENGTHENING ECONOMIC GOVERNANCE		
8. The Head of Government has issued a Circular providing for the mandatory preparation of costs and benefits assessments of investment projects submitted to the National Commission for Investments.	**D7. Circular No.01/2015 relating to the guide for the assessment of costs and benefits to investment projects submitted for approval to the Investment Commission (*Commission des Investissements*) has been issued by the Head of Government on January 16, 2015.**	Outcome: Improved assessment of impact of tax exemption and financial support granted by the National Commission for Investments to investment projects. Indicator: Assessment of costs and benefits of incentives granted to investment projects is included in the annual activity report of the Commission for Investments *Baseline: Annual review of Commission for Investments activity in 2011 without assessment of costs and benefits of incentives to investment projects* *Target: Annual review of Commission for Investments activity in 2015 includes an assessment of costs and benefits of incentives to investment projects* *Source : AMDI*
9. The MAGG has issued a Decision dated October 29, 2012 establishing within the MAGG a Department in charge of improving the investment climate and acting as the secretariat of the National Business Environment Committee (*Comité National de l'Environnement des Affaires - CNEA*).	**D8. The National Business Environment Committee (*Comité National de l'Environnement des Affaires*) has approved on December 17, 2013, its annual reform program for 2014 in accordance with Decree No. 2-10-259 dated October 29, 2010.**	Outcome: Public and private sector policy stakeholders are able to carry out better dialogue and coordinate more efficiently business environment reforms. Indicator: Number of investment climate reforms as accounted for in the Doing Business methodology that have been initiated and coordinated by the National Committee for Business Environment *Target: 4 reforms in 2013-2015 annual Doing Business surveys* *Source: CNEA and Doing Business*
10. The Government Council has approved the draft Laws modifying the Competition and Freedom of Pricing Law No 06-99, reinforcing the powers and independence of the Competition Council (*Conseil de la Concurrence - CC*).	**D9. Decree No 2-14-652 for the implementation of the Law No 104-12 of June 30, 2014 relating to the freedom of prices and competition, which, inter alia, reinforces the powers of the Competition Council (*Conseil de la Concurrence*), was issued by the Head of Government on December 1, 2014 and published in the National Gazette No.6314 dated December 4, 2014.**	Outcome: The Competition Council has the regulatory powers to investigate and sanction anticompetitive behaviors. Indicator: Number of investigations formally conducted by the Competition Council under the new legal and regulatory framework. *Baseline: 0 in 2013* *Target : 2 official investigations by end 2015* *Source: Competition Council*

ANNEX 2. LETTER OF DEVELOPMENT POLICY

المملكة المغربية
رئيس الحكومة

Royaume du Maroc

Chef du Gouvernement

Ministère Délégué auprès du Chef du Gouvernement
Chargé des AffairesGénérales et de la Gouvernance

الوزارة المنتدبة لدى رئيس الحكومة
المكلفة بالشؤون العامة والحكامة

ⵜⴰⴳⵍⴷⵉⵜ ⵏ ⵍⵎⵖⵔⵉⴱ

12 2 JAN 2015

Monsieur Jim YONG KIM
Président de la Banque Mondiale
1818 H Street N.W -Washington-
- USA -

OBJET : Lettre de Politique de Développement pour un appui au Programme de renforcement de la compétitivité économique du Maroc.

Monsieur le Président,

J'ai l'honneur de vous réitérer par la présente les termes de ma lettre en date du 5 février 2013 par laquelle je vous ai fait part du Programme de réforme du Gouvernement visant l'amélioration de la compétitivité de l'économie marocaine et la promotion de l'attractivité pour les investisseurs.

En effet, le Maroc a mis en œuvre des stratégies sectorielles, notamment dans les domaines industriels, de l'exportation et de la logistique et des réformes transversales visant à améliorer l'environnement des entreprises particulièrement dans les domaines de la simplification des procédures, de la douane, de la fiscalité et de la justice.

Parallèlement à ces réformes le Maroc s'est engagé dans une politique d'ouverture de son économie à travers la ratification de plusieurs accords bilatéraux et régionaux.

Le programme de renforcement de la compétitivité de l'économie marocaine a bénéficié d'un premier prêt de politique de Développement de la Banque Mondiale en 2013.

Le Gouvernement est engagé à poursuivre la mise en œuvre de ces réformes, objet de la présente lettre, et sollicite l'appui de la Banque par un deuxième prêt de politique de développement.

Le programme de réforme de la compétitivité de l'économie du Maroc est basé sur l'améliorationdu Climat des Affaires et de l'environnement de l'entreprise, l'amélioration de la politique commerciale et la facilitation du commerce, ainsi que sur la Gouvernance des politiques économiques.

Dans ce cadre, le Gouvernement a mis en place les actions suivantes :

I- Climat des affaires et environnement de l'entreprise

Cet axe est focalisé sur quatre objectifs stratégiques, à savoir la transparence et l'accès à l'information au niveau des entreprises, la simplification des procédures administratives, la réduction des retards de paiement affectant particulièrement les petites et moyennes entreprises et la simplification de l'environnement réglementaire.

Ainsi, dans le but d'accroître la transparence et l'accès à l'information au niveau des entreprises par toutes les Administrations concernées et les utilisateurs non gouvernementaux, et engager des réformes de l'e-gouvernement pour la simplification réglementaire, la Direction Générale des Impôts a été désignée par le comité interministériel de gestion de l'identifiant commun de l'entreprise (ICE) pour héberger la gestion et l'exploitation de la base de données centrale de l'Identifiant Commun de l'Entreprise en accord avec le décret n° 2-11-63.

Désormais, la base de données centralisant l'identifiant commun de l'entreprise est opérationnelle et peut d'ores et déjà délivrer des ICE. Le chef du Gouvernement a procédé au lancement officiel de l'ICE au profit des entreprises existantes le 30 octobre 2014. Les premiers certificats ont été accordés à cette occasion.

Pour ce qui est de la simplification des procédures administratives et de l'amélioration de leur transparence, suite à la décision du Comité National de l'Environnement des Affaires (CNEA), au moins 20 procédures administratives applicables aux entreprises ont été simplifiées, et standardisées par les départements concernés en coordination avec le Ministère de la Fonction Publique et de la Modernisation de l'Administration. Par ailleurs, une liste supplémentaire d'au moins 20 procédures identifiées en collaboration avec les représentants du secteur privé a été validée par le Groupe de travail public-privé établi dans le cadre du CNEA.

Concernant la réduction des délais de paiement dans les contrats commerciaux, les délais maximaux et les pénalités de retard ont été réglementés suite à la publication de la loi 32-10 complétant le Code de Commerce et réglementant les délais de paiement. Les textes réglementaires d'application prévus par cette loi ont également été publiés, et le Code Général des Impôts modifié pour prendre en compte les aspects fiscaux de cette nouvelle réglementation.

En matière de modernisation du droit des sociétés, le gouvernement a supprimé l'exigence de capital minimum et de la formalité de blocage du capital pour les sociétés à responsabilité limitée (SARL) par la publication en juin 2011 de la loi 24-10 modifiant et complétant la loi 05-96 sur les SARL. Dans le cadre de cette opération, le gouvernement compteaméliorer la gouvernance des grandes sociétés par l'adoption d'un projet de loi modifiant la loi n° 17-95 sur les sociétés anonymes, visant à simplifier la création et améliorer la gouvernance des sociétés anonymes (SA).

II- Politique commerciale et logistique du commerce extérieur

Dans le cadre des efforts consentis en matière d'amélioration de la politique commerciale et de logistique, le Gouvernement a fixé comme objectifs d'harmoniser la politique commerciale, de moderniser le cadre juridique et institutionnel du commerce extérieur et la protection du consommateur et de rationaliser la logistique du commerce dans les ports d'entrée.

En ce qui concerne l'harmonisation de la politique commerciale et en vue de réduire les distorsions dans la structure tarifaire, la circulaire d'application en date du 30 décembre 2011 relative à la mise en œuvre pour 2012 de la réduction des tarifs sur l'importation des produits industriels a été adoptée.

Sur le plan de la modernisation du cadre juridique et institutionnel du commerce extérieur et de la protection du consommateur, les mesures suivantes ont été prises.

- La publication de la loi 24-09 du 17 août 2011 sur la sécurité des produits et services et l'adoption du décret d'application de cette loi, et,
- Lasignature du Décret d'application de la loi 15-09 sur les mesures de défense Commerciale.

Dans le cadre de cette opération, le gouvernement accompagne la rationalisation de la logistique du commerce dans les ports d'entrée par le démarrage effectif du système Portnetdans sa phase escale aux agents maritimes leur permettant notamment de déposer des déclarations sommaires avant l'arrivée des navireset la mise en œuvre opérationnelle du guichet unique virtuel PortNet et la connexion à ce système des principaux intervenants dans les procédures d'importation et d'exportation.

III- Gouvernance économique

Le dernier axe retenu dans le cadre de ce programme d'appui à la réforme de la compétitivité de l'économie marocaine porte sur la transparence et l'efficacité des interventions publiques en matière d'investissement, la coordination des réformes du climat des affaires et le renforcementdu cadre institutionnel de la politique de la concurrence.

Dans le cadre de la promotion des investissements, il a été procédé en 2009 à la mise en place de l'Agence Marocaine de Développement des Investissements (AMDI) à l'effet de renforcer et de consolider la stratégie marocaine de promotion des investissements. Par ailleurs, une refonte du cadre de soutien public à l'investissement privé est en cours. Dans ce cadre, la loi de finances pour 2015 prévoit un certain nombre de mesures destinées à renforcer le soutien budgétaire aux investissements dans les secteurs prioritaires du Maroc. La Charte de l'investissement sera revue sur la base du renforcement de l'approche stratégique du Maroc pour attirer les investissements.

A l'effet d'assurer l'accroissement de la transparence et l'efficacité des interventions publiques en faveur de l'investissement et de certains secteurs, il a été procédé à la publication en 2012 d'une Circulaire du Chef du Gouvernement chargeant le secrétariat de la Commission des Investissements de la réalisation de l'évaluation des coûts et bénéfices des projets d'investissement soumis à l'approbation de la Commission des investissements et, la production d'un rapport annuel rendu public présentant un état d'avancement des conventions d'investissement. Dans ce cadre, le chef du Gouvernement en tant que président de la commission des investissements,a publié une nouvelle circulaire en 2015 contenant le guide de réalisation de l'évaluation descoûts et des- bénéfices qui sera mise en œuvre par les départements concernés en coordination avec l'AMDI pour les projets d'investissement soumis à l'approbation de la Commission des investissements.

En terme d'amélioration de la coordination et de la mise en œuvre des réformes de l'environnement des affaires, le CNEA, présidé par le Chef du Gouvernement, a adopté son programme d'actions pour l'année 2014 comprenant, notamment, des actions visant le renforcement de la bonne gouvernance et de la transparence du monde des affaires, la modernisation de l'environnement juridique des affaires, l'amélioration de la résolution des litiges commerciaux, l'amélioration de l'accès au foncier et l'urbanisme, et la promotion de la compétitivité au niveau régional.

Concernant le renforcement du cadre institutionnel de la politique de la concurrence, le Parlement a adopté en mars 2014 la loi N°20-13 relative au Conseil de la Concurrence, qui vise notamment à renforcer l'indépendance du Conseil de la Concurrenceet la loi 104-12 relative àla liberté des prix et de la concurrence qui élargit les pouvoirs du Conseil de la concurrence. Le décret d'application de cette loi a été adopté le 5 novembre 2014.

Je vous réitère par ailleurs la volonté du Gouvernement de continuer à mettre en œuvre et approfondir ces réformes.

En vous remerciant de l'intérêt que porte la Banque à l'amélioration de la compétitivité de l'économie marocaine, je vous prie de croire, Monsieur le Président, à l'expression de ma considération distinguée.

Le Ministre Délégué Auprès du Chef du Gouvernement
Chargé des Affaires Générales et de la Gouvernance

Mohammed LOUAFA

[Unofficial Translation]

Mr. Jim YONG KIM
World Bank President
1818 H Street N.W –Washington-
January 22, 2015

<u>SUBJECT</u>: Development Policy Letter relating to the Economic Competitiveness Support Programme in Morocco

Mr. President,

I have the honor of reiterating to you at this time the terms of my letter dated February 5, 2013, in which I outlined the Government reform program aimed at improving the competitiveness of the Moroccan economy and to promote its attractiveness for investors.

In effect, Morocco has adopted sectoral strategies have been implemented, notably in the areas of industrial development, exports and logistics. Crosscutting reforms were also implemented, with the intention of improving the business environment in the areas of the simplification of procedures, customs, taxation and justice.

In parallel with these reforms, Morocco has adopted a policy to open up its economy by ratifying several bilateral and regional agreements.

The program to strengthen the Moroccan economy's competitiveness benefitted from a first development policy loan from the World Bank in 2013.

The government is determined to continue with these reforms (the subject of this letter) and is requesting the support of the Bank with a second development policy loan.

The reform program for economic competitiveness of Morocco is based on the improvement of the business climate and the environment for enterprises, improvements in trade policy and trade facilitation as well as on economic policy governance.

In this regard, the government has put in place the following actions:

I- The business climate and environment for companies

This axis will focus on four strategic goals, namely transparency and access to information at company level, the simplification of administrative procedures, reduction of late payments particularly affecting small and medium enterprises and the simplification of the regulatory environment.

Thus, with the aim of increasing transparency and access to information at the company level by all concerned administrations and non-governmental users, and initiating e-governance reforms for simplified regulation, the inter-ministerial management committee for the management of the Common Business Identifier (*Identifiant Commun de l'Entreprise – ICE*) designated the Directorate General of Taxes to house the management and the use of the central database of the ICE in line with Decree n° 2-11-63.

At present, the database centralising the common business identifiers is operational and can already deliver the ICEs. The Head of Government proceeded to officially launch the ICEs for existing businesses in October 30, 2014. The first certificates were presented on this occasion.

Concerning the simplification of administrative procedures and improvements to transparency, following the decision by the National Business Environment Committee (*Comité National de l'Environnement des Affaires - CNEA*), at least 20 administrative procedures for businesses were simplified and standardised by the concerned departments, in coordination with the Ministry of the Civil Service and Modernization of Administration. Furthermore, the CNEA approved a supplementary list of at least 20 procedures, identified in collaboration with private sector representatives.

Concerning the reduction in payment deadlines in commercial contracts, the maximum deadlines and late penalties are regulated following the publication of Law 32-10, completing the Code of Commerce and regulating payment deadlines. The implementing regulation texts, provided for in this law, were also published and the General Tax Code amended to take into account the fiscal implications of this new regulation.

In terms of modernising company law, the government has removed the minimum capital requirement and the formality of blocked capital for creating limited liability companies (*Société à responsabilité limitée – SARL*) with the publication in June 2011 of the law 24-10, amending and completing law 05-96 on SARLs. As part of this operation, the government intends to improve the governance of large companies by adopting a draft law amending law n° 17-95 on joint-stock corporations, (*Société anonyme* – SA) aimed at simplifying the creation and improving the governance of corporations.

II- Policy on Trade and External Trade Logistics

As part of the efforts made to improve the trade and logistics policy, the Government set goals of harmonising trade policy, modernising the legal and institutional frameworks of external trade and consumer protection and to rationalise trade logistics in ports of entry.

Concerning harmonisation of the trade policy with a view to reducing distortions in the pricing structure, the application circular of December 30, 2011, on the implementation by 2012 of reductions in tariffs on the import of industrial goods, was adopted.

On the modernisation of the legal and institutional framework of external trade, the following measures were taken.

- Publication of the law 24-09 of August 17, 2011 on the safety of products and services and the adoption in the medium term of a decree applying this law.

- The signature of the implementing Decree of Law 15-09 on trade defense measures.

As part of this operation, the government reinforces its rationalization of the trade logistics in ports of entry with the effective launch of Portnet in stop-over (*escale*) stages, allowing shipping agents notably to submit summary declarations before ships' arrival and the operational implementation of a computerized single window Portnet interface allowing the interconnection of key stakeholders in import-export procedures.

III- Economic Governance

The final axis undertaken within this support programme for the competitiveness of the Moroccan economy focuses on transparency and the effectiveness of public interventions for investment, the coordination of reforms to the business climate, and the strengthening of the institutional framework for competition policy.

To encourage investments, in 2009 the Moroccan Investment Development Agency (*Agence Marocaine de Développement des Investissements – AMDI*) was established to strengthen and consolidate the Moroccan strategy to promote investments. Furthermore, a reshaping of the framework for public support for private investment is underway. In this context, the finance law for 2015 provides for a certain number of measures intended to strengthen budgetary support for investors in priority sectors in Morocco. The investment charter will also be reviewed on the basis of strengthening Morocco's strategic approach to attracting investment.

In order to ensure increased transparency and effectiveness of public interventions for investment in certain sectors, the Head of Government published a circular in 2012 mandating the secretariat of the Commission for Investments with the task of evaluating the costs and benefits of investment projects submitted for approval to the Commission for Investments. In this regard, the Head of Government, in his capacity as president of the Commission for Investments, published a new circular in 2015 containing a guide to producing cost-benefit analyses that will be implemented by concerned Departments in coordination with the AMDI, for investment projects submitted for approval by the Commission for Investments.

In terms of improving coordination and implementing reforms to the business environment, the CNEA, presided over by the Head of Government, adopted its action plan for the year 2014, including notably the measures aiming to strengthen good governance and transparency in the business world, the modernization of the legal business environment, improving business dispute resolution, improving access to property and town planning, and the promotion of competitiveness at the regional level.

In terms of strengthening the institutional framework for competition policy, in March 2014, Parliament adopted Law No 20-13 relating to the Competition Council, which notably aims to strengthen the independence of the Competition Council, and Law No 104-12, regarding pricing freedom and competition, which expands the powers of the Competition Council. The decree for the application of this law was adopted on November 5, 2014.

I would like to further reiterate the Government's willingness to continue to put in place and deepen these reforms.

I would like to thank you, Mr. President, for the Bank's interest in improving the competitiveness of the Moroccan economy.

Yours Sincerely,

Minister Louafa

Minister Delegated for General Affairs and Governance

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Morocco – IMF Staff Conduct 2014 Article IV Consultations, First Review of the Precautionary and Liquidity Line

Press Release No. 14/524
November 17, 2014

> End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

An International Monetary Fund (IMF) staff team led by Jean-François Dauphin visited Morocco during November 5-17, 2014 to conduct discussions with the Moroccan authorities on the 2014 Article IV consultation, as well as on the first review of economic performance under the Precautionary and Liquidity Line (PLL) arrangement approved in July 2014. The discussions focused on policies to consolidate recent gains in macroeconomic stabilization, and build the foundation for stronger and more inclusive growth.

At the conclusion of the visit, Mr. Dauphin issued the following statement:

"Sound economic fundamentals and strong policy implementation have helped stabilize the economy, in spite of the headwinds it has faced. After a bumper crop in 2013, agriculture output has come down and is expected to bring down GDP growth in 2014 to around 3 percent, despite a recent pick-up of non-agricultural activity. Inflation remains low. The external current account deficit is narrowing and should reach about 6 percent of GDP. International reserves have also improved. This performance reflects in part the rise in exports from newly developed industries as well as lower capital good and energy imports, the latter mainly because of the recent fall in oil prices. The fiscal deficit has been contracting since its 2012 peak owing in particular to measures taken by the government. Public debt has increased but remains sustainable. Progress was made over the last decade in reducing poverty, but more needs to be done to increase employment, reduce inequalities, and improve education and access to basic infrastructure. In this context, it is important that the authorities continue the reforms undertaken to stabilize the economy, strengthen competitiveness, and build the foundation for stronger and more inclusive growth.

"Growth is expected close to 4½ percent in 2015, as non-agricultural sectors continue to improve and the agriculture sector returns to a normal trend. However, the Moroccan economy still faces important downside external risks, including in relation with growth in Europe.

"The pace of strengthening public finances, notably as reflected in the 2015 draft budget that targets a deficit of 4.3 percent of GDP, is appropriate. Fiscal reforms that help sustain these efforts, reduce fiscal vulnerabilities, and create space for investment in infrastructure, health, education, and social protection are crucial to fostering higher and more inclusive growth. In that respect, the significant progress achieved in reforming the subsidy system is commendable. The reform of the pension system is urgent to maintain its viability. The adoption of a new organic budget law is also expected to strengthen and modernize the fiscal framework.

"Regarding the external sector, the continued improvement of the current account, external reserves and the resilience of the economy to external shocks, is welcome. This improvement owes in part to the emergence of new export industries, which has mitigated the impact of shocks to traditional exports. Stepped up efforts to improve the business environment, transparency, competition and governance are important to support competitiveness and potential growth. Greater flexibility in the exchange rate regime, in coordination with other macroeconomic and structural policies, would also help support competitiveness and enhance the economy's capacity to absorb shocks.

"The financial sector remains sound overall. We support the efforts of Bank Al-Maghrib to strengthen supervision, including of Moroccan banks' cross-border activities in light of the rapid expansion of some banks in sub-Saharan Africa. The adoption of new banking and central bank laws is expected to help strengthen the financial sector. The authorities' efforts to improve financial inclusion and access to credit are also welcome.

"The mission would like to thank the Moroccan authorities and all those with whom it had the opportunity to meet, including representatives of the private sector and civil society, for their excellent cooperation and productive discussions."

Background information:

The IMF Executive Board approved a 24-month arrangement under the Precautionary and Liquidity Line in an amount equivalent to about US$5 billion (550 percent of Morocco's quota) in July 2014 (See Press Release No. 14/368).

OFFICIAL USE ONLY
R2015-0017/1

February 6, 2015

Closing Date: Monday, March 2, 2015
at 6 p.m.

FROM: The Corporate Secretary

Morocco

Second Economic Competitiveness Support Program Development Policy Loan

Program Document

Attached is the Program Document regarding a proposed Second Economic Competitiveness Support Program Development Policy Loan to Morocco (R2015-0017), which is being processed on an absence-of-objection basis.

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